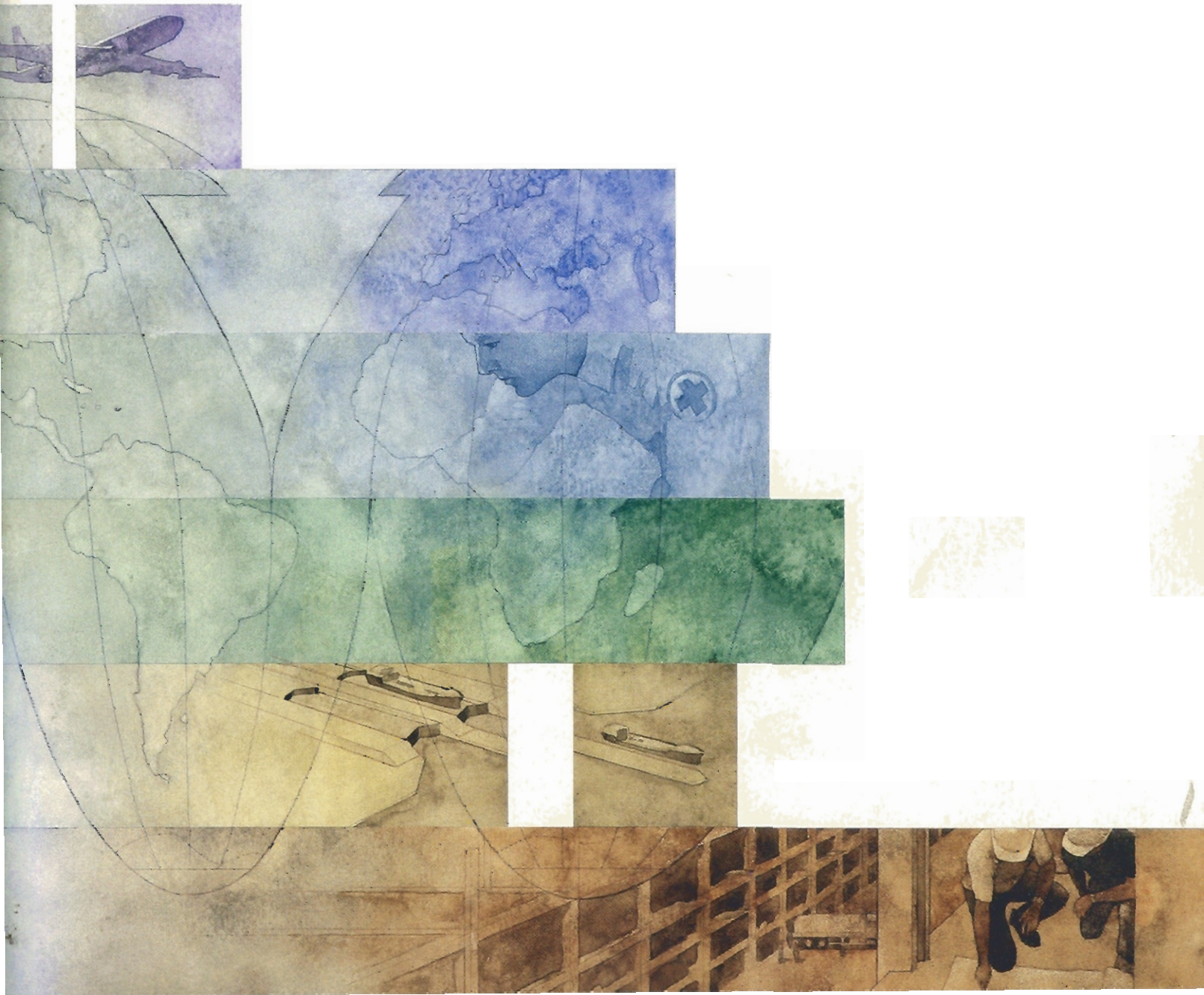


International Insurance Brokerage

Risk Management Consulting

*Human Resource Management
Consulting*



FINANCIAL HIGHLIGHTS

<i>Alexander & Alexander Services Inc.</i> <i>(millions of dollars, except per share amounts)</i>	1987	1986	Percent Change
Operating revenues	\$1,118.7	\$1,068.2	+ 4.7%
Income from continuing operations	74.9	66.6	+12.5
Net income	68.4	43.2	+58.3
Per share of common stock:			
Income from continuing operations	1.77	1.62	+ 9.3
Net income	1.62	1.05	+54.3
Cash dividends	1.00	1.00	—
Total assets	\$2,609.7	\$2,428.6	+ 7.5
Stockholders' equity	389.4	324.4	+20.0
Book value per share	9.29	7.74	+20.0
Return on equity	19.2%	14.2%	+35.2
Average shares outstanding	42.3	41.2	+ 2.7
Number of employees (thousands)	17.0	18.0	— 5.6

ALEXANDER & ALEXANDER SERVICES INC. serves clients in more than 70 countries as a leading international insurance brokerage, risk management and human resource management consulting company.

Our 17,000 employees plan, place and service all types of insurance and risk management programs on behalf of commercial businesses, governmental entities, associations and individuals. We also place reinsurance and provide risk analysis and self-insurance services, premium financing and asset valuation and management.

Our human resource management consulting operations provide actuarial and administrative services for compensation and benefit plans, as well as employee communications and management consulting services.

 CONTENTS

TO OUR FELLOW SHAREHOLDERS	2
THE A&A BUILDING BLOCKS	6
FINANCIAL CONTENTS	8
BOARD OF DIRECTORS AND CORPORATE OFFICERS	34
INVESTOR INFORMATION	36



TO OUR FELLOW SHAREHOLDERS

Alexander & Alexander Services Inc. strengthened its operations throughout 1987. We report to you with confidence about the Company's prospects for renewed growth and profitability.

Progress during the year is evident in key financial measurements including:

- Worldwide revenues, despite falling prices in global insurance markets, grew nearly 5%.
- The rate of expense growth was cut by one-third.
- Net income growth exceeded 50%.
- Shareholder equity increased to \$389 million.
- We repurchased one million shares of A&A common stock and in early 1988 announced plans to repurchase additional shares.
- Our commercial paper credit rating was upgraded during 1987 and again in early 1988, reflecting the Company's improved financial picture.

Major organizational, operational and structural changes, along with improved quality and cost controls, were also implemented during the year. These changes increasingly contributed to financial improvements in 1987. Additional benefits from these actions are expected in 1988 and beyond.

Our globalization program also produced benefits during the year. Offices

around the world successfully enhanced intracompany coordination. A&A is now firmly established as a leading full-service international insurance brokerage, risk management and human resource management consulting company.

One of our strategic objectives is to concentrate management efforts on the basic business lines where we have our greatest strengths. These "building blocks" are worldwide retail insurance broking, wholesale and reinsurance broking, risk management services and human resource management consulting, as well as related businesses that supplement other services for A&A clients.

As part of our emphasis on our core businesses, A&A substantially removed itself from underwriting with the December sales of Shand, Morahan and Company, Inc. of Evanston, Ill., and the Sphere Drake Insurance Group of London. These actions will allow us to reinvest in our basic business lines through the repurchase in early 1988 of up to an additional two million shares of A&A stock. The repurchase program—which totals three million shares—reflects confidence in A&A's future by management and the board of directors.

A&A and other insurance brokers were negatively affected by falling insurance prices, especially in the fourth quarter. At A&A, the impact of this revenue loss

was partially offset by new business production and productivity increases.

In the U.S., A&A Inc. realigned its management structure as part of a program to streamline its operations. Brokers were also shifted from staff and regional jobs into positions that were more closely related to client service and new business production. Restructuring also took place in Canada and in Europe, where we undertook several strategically significant acquisitions and mergers.

Profitability and client-retention efforts during the year were enhanced by A&A's quality service programs. These include management development, technical training and procedural safeguards to assure that we continue to give our clients cost-effective, high-quality service.

An Operations Board, chaired by T.H. Irvin, has been established to develop and implement long-range plans and to strengthen coordination among senior A&A managers. The board, among other things, maintains a rolling three-year plan that supports the broader framework of our long-term strategy. Emphasis is placed on anticipating changes in the business environment and on developing services that meet client needs.

The Operations Board has acted to:

- Increase the synergy of business units as we serve our clients on a worldwide basis.
- Improve global procedures and controls, as well as global executive development.
- Increase emphasis on human resource management consulting.

Those business lines that A&A has chosen to emphasize either enjoy a dominant market position—such as our broking operations—or they are well-positioned in rapidly growing service areas. A&A business units with significant potential for strong near-term results include our human resource management consulting operation, the Alexander Consulting Group (ACG). ACG's progress in 1987 validates its strategic importance as one of the Company's building blocks.

In 1987, ACG units increased combined revenues by almost 20% over 1986. Pre-tax profit was up by more than 25%. Contributing to ACG's progress are its new services, which include innovations in the emerging field of interactive video, employee communications consulting, health care strategies and information systems development and application.

A&A has continued to invest in risk management services by opening Anistics offices in London, Toronto and Sydney. As it has for nearly 20 years, Anistics leads the industry in applied research and development for computer software products, loss forecasting and financial models, as well as consulting services for non-traditional coverage.

Growth has been strong at Alexsis, our self-insurance services organization. It also

*A&A IS NOW FIRMLY ESTABLISHED AS A LEADING
FULL-SERVICE INTERNATIONAL INSURANCE
BROKERAGE, RISK MANAGEMENT AND HUMAN
RESOURCE MANAGEMENT CONSULTING COMPANY.*

provides risk analysis and diversified funding arrangements for our clients. The number of Alexsis offices—60—has quadrupled in five years, reflecting the demand for this type of service. Processed claims increased by 50,000 last year. Gross annual revenues and profit were up by more than 20%.



A&A management cannot control the external factors that create or influence the insurance cycle. A&A can, however, provide services through innovative risk management techniques. By combining the skills of Alexsis, Anistics and broking, we serve our clients during these chaotic periods. Our wide range of products and services—developed and delivered by an experienced, well-trained staff—should ensure long-term growth and increase shareholder value.

Earlier, we referred to our globalization program. The Reed Stenhouse merger provided the basic framework for A&A's international retailing operations. By



John A. Bogartus, Jr.

1987 the merger had matured into a single, coordinated operation. Meanwhile, the Alexander Howden Group continued to develop its leading role in wholesale and reinsurance broking in London and other international business centers.

Mergers and acquisitions during 1987 contributed to the implementation of our global strategy. Emphasis was placed on continental Europe, where additional expansion is forecast as the European Economic Community liberalizes cross-border trade in financial services products. This action by trade and industry ministers is a significant step toward freedom of insurance services. Insurance opportunities, particularly for the London market, will grow.

In Belgium, A&A negotiated the purchase of the outstanding shares of Alexan-

der Meriège & Jowa, which will become a wholly owned subsidiary. This company will trade under the name Alexander Stenhouse Belgium International SA/NV.

In December, effective ownership of Bekouw Mendes Holding, B.V., the Dutch insurance broker and risk management company, was increased from 30% to 75%.

A&A and Banco de Bilbao Group are planning to merge brokerage operations in Spain. The new group will trade under the name of Gavial Alexander, S.A. Alexander & Alexander A/S was created in Norway as a subsidiary of Alexander Stenhouse A/S of Denmark.

Alexander Howden North America, Inc., A&A's national excess/surplus and specialty lines broker, acquired J.J. Francis & Associates, Inc., Cherry Hill, N.J.

A&A increased its equity position to 50% in the Brazilian insurance broker, MacFarlane & Associates. The company will change its name to Alexander MacFarlane Ltda.

Our links with the People's Republic of China were bolstered when a correspondent relationship was established between Alexander Trade Services and China International Economic Consultants, Beijing. ATS offers a full investment-consultancy service, including analysis of proposed investments, identification of possible Chinese partners and feasibility studies.

Special emphasis was also placed on Japanese business during the year. In January 1987, A&A Services Senior Vice President James Y. Paulding became president of A&A of Japan, Inc. His assignment is to develop and to expand ties with Japanese insurance companies and other businesses. In the U.S., A&A ac-

PROFITABILITY AND CLIENT-RETENTION EFFORTS DURING THE YEAR WERE ENHANCED BY A&A'S QUALITY SERVICE PROGRAMS.

quired Kadowaki Associates International Corp. of Pasadena, Calif. Kadowaki had been identified as a leading acquisition candidate on the strength of its specialized brokerage and risk management services for Japanese businesses operating in the U.S. As part of A&A Inc.'s National Marketing Group, Kadowaki will operate nationally as a resource to A&A offices.

In addition to this acquisition, mergers in the U.S. included Inter-American Insurance Group, Inc. of Miami, Fla.; Federman-Bachrach & Associates, Inc. of Beverly Hills, Calif.; Associated General Agency, Inc. of Beachwood, Ohio; and Landmark Insurance Corporation, Inc. and Grissom, Gillingham & Associates, both of Fort Myers, Fla.

To further enhance our global network, A&A formed the Global Retail Insurance Broking Board during 1987. The board will improve procedures for meeting client needs across product lines and across national boundaries.



In early 1987, John A. Bogardus, Jr., announced that he would be stepping down as chief executive officer. The



Tinsley H. Irvin

board of directors named T.H. Irvin as his successor. Mr. Bogardus agreed to continue to serve as chairman until his retirement at the end of May 1988.

Also in May, Bobby J. Cline, John B. Devine, David C. French, Cedric G. E. Gyles, Ronald A. Iles, James A. McCormick, John C. Sienkiewicz and Kenneth W. S. Soubry will be concluding their service on our board. Their contributions and counsel as members of the board have been very helpful in strategically positioning A&A for the future.

During 1987, Michael K. White and William M. Wilson became executive vice presidents of A&A Services Inc. Mr. White continued to serve as president and chief executive officer of A&A Inc. until early 1988, when he became chairman and chief executive officer. Mr. Wilson continued to serve as chairman and chief executive officer of A&A International Inc.

On September 1, 1987, Paul E. Rohner joined A&A as senior vice president and chief financial officer. Mr. Rohner brings many years of international business experience to the position.

Other A&A Services appointments include Dan R. Osterhout's designation as senior vice president. Mr. Osterhout heads a new business unit established to consolidate management responsibility for our remaining underwriting issues. These include exposure management, run-off and related operations.

In U.S.-based operating units, James A. McCormick was appointed president and chief operating officer of A&A Inc. Additionally, he was named chairman of a new operations committee that includes the senior executives of the eight A&A Inc. operating units.

The committee includes regional directors Donald R. Bell, Gerald M. Brown, Paul V. Colony, James H. Dunard and Allen J. McDowell, as well as Giles H. Madray, Jr., director of Administrative Operations; John A. Malasky, director of Special Services; and Robert J. Murphy, director of National Marketing.

In Atlanta, John W. Hanna was named president and chief operating officer of Alexander Howden North America, Inc., the wholesale broking unit.

R. Allan Durward has been appointed chief executive officer of Alexander Consulting Group Ltd. for the U.K. and Europe, replacing John D. Loudon, who has retired. Graham Bird has been ap-

pointed managing director for the Alexander Consulting Group Ltd., Australia.

In Canada, James S. Horrick was appointed chief executive officer of Reed Stenhouse Ltd. He replaced Cedric G.E. Gyles, who retired as CEO but will continue as Reed Stenhouse chairman. In Europe, John B. Devine announced his decision to retire as chief executive officer, with executive responsibilities to be assumed by Ronald W. Forrest, chief executive officer of Alexander Stenhouse Ltd., and Michael J. Barrett, chief executive officer of Alexander Stenhouse Europe Ltd. Mr. Devine will remain as chairman.

David C. French, chairman and chief executive officer of the Australia/New Zealand region, retired in December from executive responsibilities, continuing as chairman. Lloyd E. Mills, managing director and chief executive of Alexander Stenhouse Ltd., Australia, has assumed the regional chief executive officer position, responsible for Australia and New Zealand. Ross L. McKenzie, operations director of Alexander Stenhouse Ltd., Australia, was named managing director and chief executive officer of Alexander Stenhouse Ltd., Australia. Mr. McKenzie and Timothy P.S. Gibson, managing director of Alexander Stenhouse Ltd., New Zealand, became deputy chairmen of the Australia/New Zealand region.

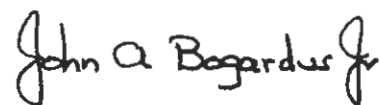
The current period of lower prices and commissions is expected to continue throughout 1988. Although our clients are benefiting from lower prices, there is a long-term risk that insurance companies

will suffer financial hardships—some may even experience insolvencies.

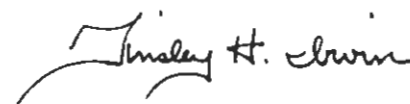
The increase in the size and strength of A&A's global operations has enhanced our ability to assist multinational clients through the periods of price fluctuations and varying levels of insurance capacity.

A&A is prepared to support its clients through this treacherous environment in both conventional and innovative ways. Despite the insurance cycles, our commitment to creative insurance alternatives is not cyclical. When alternative funding is more appropriate for our clients, it will be encouraged.

A&A ended 1987 with the knowledge that its strategic objectives are being achieved as anticipated. We are committed as a company to quality service for our clients, and we have an outstanding group of professionals who can deliver A&A service. We are confident that with the dedication of our 17,000 employees and the management team we have in place, A&A will continue its progress throughout 1988.



John A. Bogardus, Jr.
Chairman



Tinsley H. Irvin
President & Chief Executive Officer

THE A & A BUILDING BLOCKS

Retail Broking

Retail insurance broking is the basic building block of Alexander & Alexander Services Inc. As the leading international retail broker, we arrange insurance coverage for a diverse array of clients. These clients are primarily commercial businesses of all sizes, but A&A also represents individuals and governmental entities.

In the United States, retail broking is conducted by Alexander & Alexander Inc., which has nearly 100 offices covering every part of the country.

Non-U.S. broking operations are conducted by Alexander & Alexander International Inc. through its Alexander

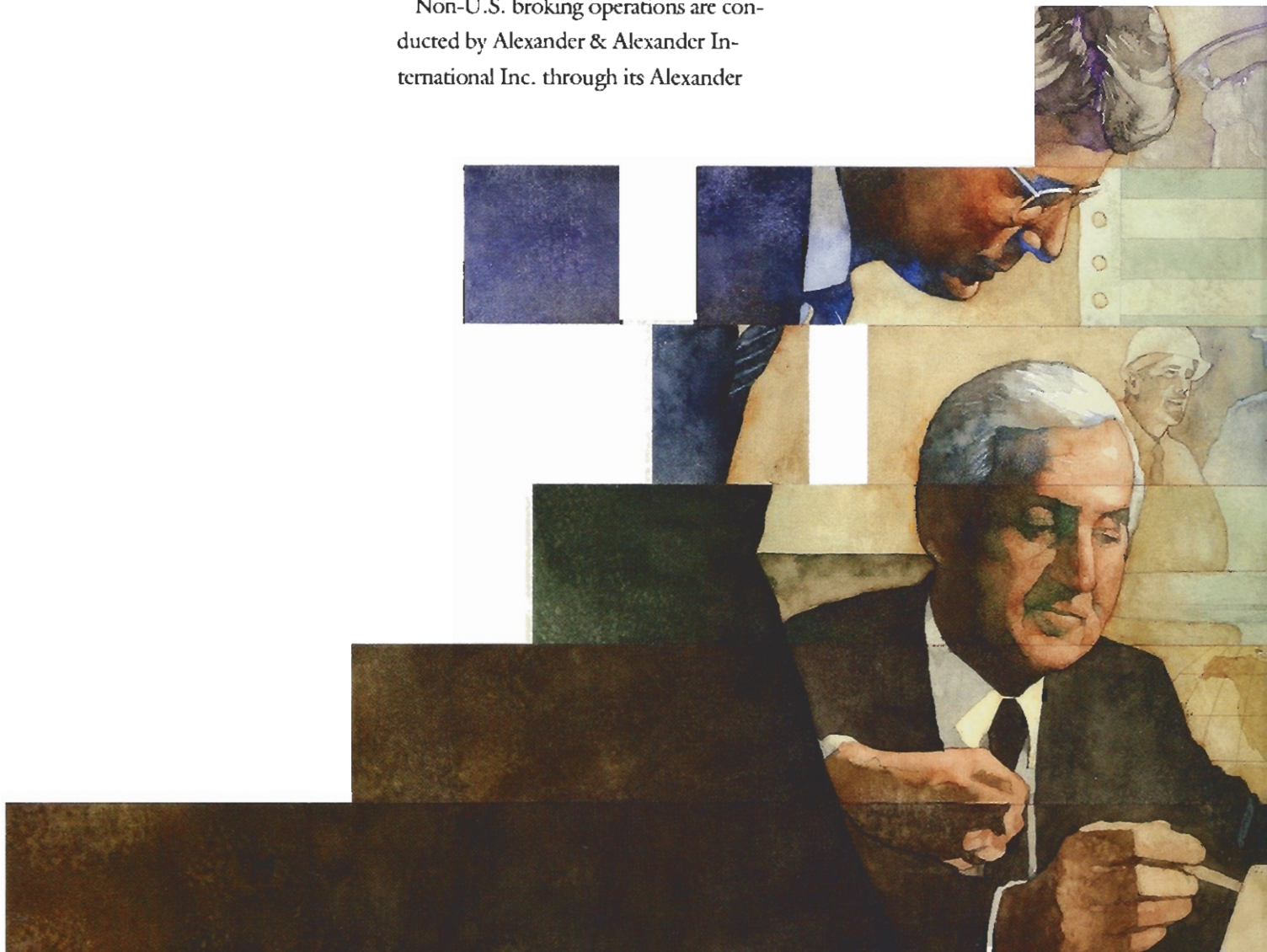
Stenhouse Limited and, in Canada, Reed Stenhouse Limited subsidiaries.

A&A Inc. and A&A International Inc. work together to serve clients throughout the world.

Wholesale Broking

Wholesale broking operations include Alexander Howden Limited, which operates at the center of the wholesale business in London.

In the United States and Canada, Alexander Howden North America, Inc. is our link between retail brokers and underwriters for specialty lines and for risks that are often difficult to place.



Reinsurance Broking

The building block of reinsurance broking has become an increasingly prominent component of our worldwide operations as A&A reinsures risks on behalf of insurance and reinsurance companies.

Alexander Howden Reinsurance Brokers Limited in London has for decades been a worldwide leader in marine, non-marine, aviation and London excess loss. In the United States, Thomas A. Greene & Company, Inc. is one of the most successful and rapidly growing companies in the field.

Risk Management

Sophisticated risk analysis and risk management services are primarily offered through the Risk Management Services Group. Anistics, one of the component business units, is a pioneer in the development of computer software, loss forecasting, financial models and consulting services.

Human Resource Management Consulting

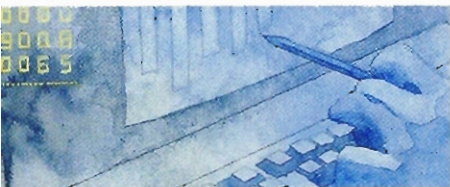
Human resource management consulting is also an essential element in our global development. Through the Alexander Consulting Group Inc., we are innovators in health care strategies and other areas of human resource management.

Niche Financial Services

Specialized financial services give A&A a competitive edge in developing business and in servicing clients.

TIFCO Inc., the U.S.-based premium financing facility, offers funding alternatives to insurance buyers. Strategis, A&A's asset valuation and management arm, helps businesses manage and protect the financial value of their assets.





FINANCIAL CONTENTS

SELECTED FINANCIAL DATA	9
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	10
REPORT OF MANAGEMENT	14
AUDITORS' OPINION	15
CONSOLIDATED STATEMENTS OF INCOME	16
CONSOLIDATED BALANCE SHEETS	17
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION	18
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY	19
NOTES TO FINANCIAL STATEMENTS	20

SELECTED FINANCIAL DATA

Alexander & Alexander Services Inc.
(in millions, except per share amounts)

	1987	1986	1985	1984	1983
Summary of Operations:					
Operating revenues	<u>\$1,118.7</u>	<u>\$1,068.2</u>	<u>\$ 913.6</u>	<u>\$ 788.0</u>	<u>\$ 778.6</u>
Operating income	<u>60.6</u>	<u>109.8</u>	<u>80.3</u>	<u>42.3</u>	<u>60.2</u>
Income from continuing operations	<u>74.9</u>	<u>66.6</u>	<u>44.7</u>	<u>28.3</u>	<u>23.4</u>
Loss from discontinued operations	<u>(10.0)</u>	<u>(24.0)</u>	<u>(52.0)</u>	<u>(77.1)</u>	<u>(22.1)</u>
Extraordinary items	<u>3.5</u>	<u>0.6</u>	<u>—</u>	<u>1.6</u>	<u>6.9</u>
Net income (loss)	<u>\$ 68.4</u>	<u>\$ 43.2</u>	<u>\$ (7.3)</u>	<u>\$ (47.2)</u>	<u>\$ 8.2</u>
Per share of common stock					
Income from continuing operations	<u>\$ 1.77</u>	<u>\$ 1.62</u>	<u>\$ 1.17</u>	<u>\$.78</u>	<u>\$.66</u>
Loss from discontinued operations	<u>(.24)</u>	<u>(.58)</u>	<u>(1.36)</u>	<u>(2.12)</u>	<u>(.63)</u>
Extraordinary items	<u>.09</u>	<u>.01</u>	<u>—</u>	<u>.04</u>	<u>.20</u>
Net income (loss)	<u>\$ 1.62</u>	<u>\$ 1.05</u>	<u>\$ (.19)</u>	<u>\$ (1.30)</u>	<u>\$.23</u>
Cash dividends	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
Weighted average number of shares	<u>42.3</u>	<u>41.2</u>	<u>38.2</u>	<u>36.3</u>	<u>35.3</u>
Financial Position:					
Current assets	<u>\$1,917.3</u>	<u>\$1,855.3</u>	<u>\$1,635.6</u>	<u>\$1,308.8</u>	<u>\$1,239.1</u>
Working capital	<u>62.9</u>	<u>52.8</u>	<u>52.6</u>	<u>37.1</u>	<u>26.2</u>
Total assets	<u>2,609.7</u>	<u>2,428.6</u>	<u>2,127.4</u>	<u>1,832.7</u>	<u>1,844.9</u>
Long-term debt	<u>150.2</u>	<u>97.9</u>	<u>125.7</u>	<u>176.5</u>	<u>184.7</u>
Stockholders' equity	<u>389.4</u>	<u>324.4</u>	<u>284.0</u>	<u>263.6</u>	<u>335.3</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Operating results of the insurance brokerage industry generally reflect the cyclical pattern of premium rates charged by the property and casualty insurance companies. From the late 1970's through 1984, the Company experienced modest growth in operating revenues due to the severe price competition among the insurance carriers. Due to the significant underwriting losses generated during this "soft insurance cycle," the insurance industry's pricing structure shifted upwards as evidenced by the Company's double-digit revenue growth in 1985 and 1986. Beginning in late 1986, and continuing throughout 1987, improved underwriting results and increased competition for market share among the insurance companies once again caused premium rates to decline. In addition, the pricing of many insurance products varied significantly depending upon such factors as worldwide market capacity and type of coverage. The Company's prospects for future revenue growth are largely dependent upon insurance premium rates, new business production coupled with retention of existing business and enhanced product development to cope with new and more complex insurance needs.

Despite declining premium rates, the Company's consolidated operating revenues reached a record \$1.1 billion in 1987. Net income increased \$25.2 million to \$68.4 million in 1987 with net income per share at \$1.62, up more than 54%. Income from continuing operations in 1987 increased 12.5% to \$74.9 million as gains from sales of non-strategic businesses and other assets, coupled with lower income taxes, more than offset a decline in operating income.

With the 1987 sales of Sphere Drake Insurance Group ("Sphere Drake") and Shand, Morahan & Company, Inc. ("Shand"), including its 52%

owned insurance company, the Company has now completed the divestitures of its significant insurance underwriting and related operations. While the terms of the sale agreements provide for certain indemnifications including adequacy of loss reserves and collectibility of reinsurance as of December 31, 1986, the Company's overall exposure to underwriting activities has been mitigated.

Results of Operations

Operating Revenues

Consolidated operating revenues increased 4.7% in 1987 after a 16.9% increase in 1986. Insurance services, which include retail, wholesale and reinsurance commissions and fees, comprise over 87% of the Company's operating revenues. In 1987, new business production, coupled with acquisitions and the effect from rising foreign currency translation rates more than offset the impact of declining premium rates, lost business and reduced operating revenues due to sold operations. Successful new business production in 1986, combined with rising insurance premium rates and acquisitions, resulted in the 1986 increase over 1985.

Human resource management consulting includes the operations of the Alexander Consulting Group as well as association marketing business. Revenues from this segment grew by 14.9% to \$121.0 million in 1987 compared to a 19.4% increase in 1986. Significant legislative, regulatory and accounting changes, both in the United States and internationally, resulted in the expansion of the demand for the Company's services in the areas of employee benefit programs and other areas of human resource management. To better service an expanding multinational client base, the Company's employee benefit and management consultant operations were organized into a global coordinated operating unit during the latter part of 1986.

Operating Expenses

Total operating expenses increased 10.4% in 1987 compared to a 15.0% increase in 1986. Both years re-

flect the increased costs associated with sales efforts and servicing an expanding client base. Additionally, significant increases in foreign exchange rates throughout 1987 and the effect of acquisitions negatively impacted prior year comparisons.

Salaries and related benefits were up 10.2% in 1987 compared to an 18.2% increase in 1986. Increased staff levels due to additional volume of business, as well as acquisitions, caused the 1986 increase; the annualized effect also impacted 1987 expenses. Other operating expenses in 1986, including premises costs, depreciation and travel costs, increased correspondingly. Beginning in early 1987, as the softening insurance market became more evident, the Company initiated salary and expense controls and streamlined its management structure in an effort designed to significantly reduce the rate of expense growth. As a result, expense growth was reduced by approximately one-third in 1987 with continued cost containment measures remaining in effect during 1988.

The Company's insurance and self-insurance costs have increased throughout the last three years. These increased costs, as well as reduced availability of selected insurance coverages and higher deductibles, reflected the trend in the liability insurance industry generally and were not unique to the Company. While increasing levels of coverage are becoming available, the Company continues to emphasize and enhance its quality control programs with particular emphasis on prevention of errors and omissions claims.

In 1985, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" for its U.S. pension plans. It is anticipated that the Company will adopt Statement 87 for its international pension plans beginning in 1988. Based upon current exchange rates, the effect on pension expense in 1988 compared to 1987 should be a reduction of approximately \$13.3 million.

Equity Earnings

Equity earnings in unconsolidated operations declined by \$5.0 million to \$17.8 million in 1987 after increasing by \$10.0 million in 1986. The increase in 1986 was primarily the result of increased business combined with lower financing costs in TIFCO Inc., the Company's premium financing subsidiary. In 1987, a decrease in lending spreads due to competitive pressures and reduced premium rates resulted in a \$3.6 million decline in pre-tax operating earnings for this operation. In addition, effective September 30, 1987, the Company sold Evanston Services Inc. (52% owned) as part of the divestiture of Shand. The Company's equity earnings in Evanston was \$1.4 million lower in 1987 compared to 1986.

In October 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority-Owned Subsidiaries." As a result, the Company's unconsolidated majority-owned subsidiaries as described in Note 5 will be consolidated in 1988 with restatements of prior years' financial statements required.

Other Income and Expense

Investment income decreased by 3.1% in 1987 compared to an increase of 23.9% for 1986. The 1987 decrease is due primarily to lower average interest rates whereas the 1986 increase reflected an increase in investment levels due to the rising premium rates and new business production.

Interest expense declined \$3.3 million in both 1987 and 1986. Interest rates and short-term borrowings on average declined in both years and the average outstanding commercial paper debt during 1987 declined 35% from 1986's average.

In 1987, the Company completed several asset dispositions which resulted in significant gains. Included in other income is a \$15.3 million gain relating to real estate transactions in the United Kingdom and France and \$7.5 million for the sale of a Canadian insurance broking subsidiary. In addition, the Company sold Shand at approximate book value. See Note 4 for a description of the terms of sale and other information.

In November 1986, the Company settled its lawsuit against certain former auditors of Alexander Howden Group, plc. As a result, legal and accounting costs associated with this suit and related matters declined by \$7.3 million in 1987 compared to an increase in such costs of \$3.6 million in 1986.

Other income (expenses) for 1985 includes a pre-tax gain of \$11.9 million realized on the sale of the Company's Lloyd's managing agency businesses offset by \$20.5 million of merger related expenses relating to the acquisition of Reed Stenhouse Companies Limited.

Income Taxes

The Company's effective tax rates from continuing operations were 45.3% in 1987, 54.6% in 1986 and 53.9% in 1985 compared to the U.S. statutory rate of 40% in 1987 and 46% in 1986 and 1985.

State and local income taxes, non-deductible expenses, including goodwill amortization and certain expenses disallowed by statute, and losses of various subsidiaries for which no tax benefit can currently be recognized account for the higher than statutory rates. In 1987, the effect of these items was partially offset by the benefit from capital gains rates on the disposition of assets previously discussed. The Tax Reform Act of 1986 had the effect of lowering the Company's tax provision in 1987 due to the reduced statutory rate.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." Statement 96 is effective for fiscal years beginning after December 15, 1988 (calendar year 1989) with earlier application permitted. The most significant element of the new Statement is the shift to the liability method from the deferred method of accounting for income taxes whereby deferred taxes are adjusted currently for tax rate changes. The adoption of the Statement is not currently expected to have any adverse impact on the Company's financial position.

As a result of the settlement with certain former auditors of Alexander Howden Group, plc referred to previously, the Company increased its tax deduction in 1986 above that taken in 1982 in connection with

the loss sustained in the acquisition. Consistent with the original deduction, no recognition of the related tax benefit has been taken in the Consolidated Statements of Income until realization is reasonably assured. As discussed in Note 6, it is anticipated that the Internal Revenue Service will disallow the 1982 tax deduction and the Company is in the process of preparing an appeal. The Company believes the resolution of this issue will not have an adverse effect on the Company's financial position.

Discontinued Operations

During 1987, the Company completed the sale of Sphere Drake for cash and two zero-coupon notes, whose ultimate collectibility is subject to offset based upon the adequacy of loss reserves and reinsurance recoverable balances as of December 31, 1986. The Company will defer recognizing the related interest income on these notes in the Consolidated Statement of Income until realization is assured. In addition, the Company is continuing with the settlement of claims of the remaining Atlanta and Bermuda-based insurance companies which are in run-off.

The additional provision made in 1987 of \$10.0 million relates primarily to the sale of Sphere Drake. The Company believes the provision made to date and the reserve for estimated loss are sufficient to adequately provide for the estimated losses through the period of run-off or indemnification; however, due to variables inherent in the estimation process, there is no assurance that adverse deviation may not occur.

Extraordinary Items

The extraordinary credits of \$3.5 million and \$0.6 million for 1987 and 1986, respectively, represent the realization of tax benefits resulting from the utilization of Reed Stenhouse Companies Limited net operating loss carryforwards relating to its U.S. operations. A significant portion of the remaining \$10.8 million of carryforwards will become recognizable in 1988 provided sufficient earnings are available in those subsidiaries where the losses arose.

Liquidity and Capital Resources

The Company's cash flow from operations, asset dispositions and, in 1985, the proceeds from an equity issuance, have been the primary source of funds for the last three years. The positive cash flow has been used to finance its operating and capital expenditures as well as to pay dividends and fund the discontinued operations. The Company continues to utilize its commercial paper program to supplement working capital requirements.

The net increase in cash and investments for the last three years represents primarily fiduciary assets which, except in certain foreign operations where legally permissible, are not available for working capital needs.

In 1987, the Company's cash flow was supplemented by the proceeds from the dispositions of subsidiaries and other assets, as well as the utilization of net operating loss carryforwards for tax purposes which resulted in minimal tax payments in the United States. In 1986, an additional tax deduction was taken in the United States relating to a loss sustained in the acquisition of Alexander Howden Group, plc. While this deduction will not be recognized for income statement purposes until realization is assured, it did result in a significant reduction in current income taxes payable in 1986.

During the fourth quarter of 1987, the Company purchased one million shares of its common stock in the open market. In February 1988, the board of directors authorized the purchase of up to an additional two million shares, depending upon market price and conditions. The purchase of such shares will be financed primarily from internally generated funds.

In 1987, the Company remitted approximately \$39.9 million to its Atlanta and Bermuda discontinued insurance operations representing \$32.1 million of tax benefits from prior years' losses and \$7.8 million of additional capital to fund the run-off of claim liabilities. During 1986, the Company contributed \$22.0 million to Sphere Drake Insurance Company, plc. and \$20.0 million to the Atlanta insurance companies in run-off.

In the fourth quarter of 1987 the Company made open market purchases of \$6.8 million of its 11% convertible subordinated debentures. The Company

is continuing to review its options with respect to redeeming the remaining debentures in 1988. If redeemed in 1988, it is anticipated that a major portion of the debentures would be replaced with lower cost borrowings and the Company would recognize an after-tax extraordinary loss of approximately \$3.0 million.

The Company maintains a \$50.0 million bank credit agreement which expires in June, 1989. In the event short-term borrowings cannot be made advantageously, the Company intends, if necessary, to use this facility to refinance its short-term borrowings on a long term basis and, accordingly, \$50.0 million has been reclassified to long-term debt at December 31, 1987. Supplementing the bank credit agreement, the Company has committed unsecured lines of credit of \$91.3 million as support for future working capital requirements.

In December 1987, a 50% owned French subsidiary entered into a lease agreement for new office facilities which is accounted for as a capital lease. The present value of the net minimum lease payments reflected in the 1987 Consolidated Balance Sheet is \$25.4 million. In addition, the December 1987 acquisition of the Netherlands subsidiary described in Note 3 was financed by bank borrowings.

As previously discussed, the Company will be required to consolidate all majority-owned subsidiaries by year-end 1988. As a result, TIFCO Inc. will be included in the Company's 1988 consolidated financial statements. Reference is made to Note 5 for information concerning this operation's financing programs.

The Company's dividend policy has been to pay dividends out of current sustainable earnings. While under Maryland law, dividends may be paid from unrestricted paid-in capital, the Company's board of directors has no present intent of doing so.

The Company anticipates that cash flow from operations, supplemented by use of short-term borrowings, will be sufficient to meet 1988's working capital needs.

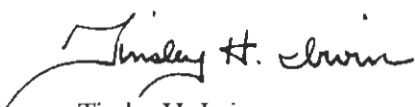
R E P O R T O F M A N A G E M E N T

Management of the Company is responsible for all the information and representations contained in the consolidated financial statements and other sections of the annual report. Management believes that the consolidated financial statements and related information have been prepared in accordance with generally accepted accounting principles consistently applied and appropriate in the circumstances. These financial statements necessarily include amounts that are based on management's judgment and best estimates.

The Company maintains a system of internal accounting controls that provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records provide a reliable basis for the preparation of financial statements. The internal accounting control system is augmented by an internal auditing program, other written policies and guidelines, including the Company's policy on General Business Ethics, and careful selection and training of qualified personnel.

Deloitte Haskins+Sells has been engaged, with the approval of the Company's stockholders, as the independent auditors to examine the financial statements of the Company and to express an opinion thereon. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the financial statements present fairly the Company's financial position, changes in financial position and results of operations. Their report is set forth on page 15.

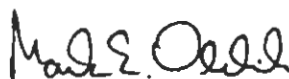
The Audit Committee of the board of directors is composed of four directors, none of whom is an employee of the Company or any of its subsidiaries, and assists the board in exercising its fiduciary responsibilities for oversight of audit and related matters, including corporate accounting, reporting and control practices. It is responsible for recommending to the board the independent auditors to be employed for the coming year, subject to stockholder approval. The Audit Committee meets periodically with management, internal auditors and the independent auditors to review internal accounting control and auditing and financial reporting matters. The independent auditors and the internal auditors have free access to the Audit Committee.



Tinsley H. Irvin
*President and
Chief Executive Officer*



Paul E. Rohner
*Senior Vice President
and Chief Financial Officer*



Mark E. Oleksik
*Vice President, Controller
and Chief Accounting Officer*

AUDITORS' OPINION

To the Shareholders of Alexander & Alexander Services Inc.:

We have examined the consolidated balance sheets of Alexander & Alexander Services Inc. and its consolidated subsidiaries as of December 31, 1987 and 1986, and the related consolidated statements of income, of changes in financial position, and of stockholders' equity for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31, 1987 and 1986, and the results of their operations, and the changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

**DELOITTE HASKINS+SELLS***Baltimore, Maryland**March 8, 1988*

CONSOLIDATED STATEMENTS OF INCOME

Alexander & Alexander Services Inc.

For the three years ended December 31, (in millions, except per share amounts)

	1987	1986	1985
Operating revenues:			
Insurance services	\$ 974.5	\$ 943.3	\$805.8
Human resource management consulting	121.0	105.3	88.2
Other	23.2	19.6	19.6
	<u>1,118.7</u>	<u>1,068.2</u>	<u>913.6</u>
Operating expenses:			
Salaries and benefits	671.7	609.5	515.6
Other	386.4	348.9	317.7
	<u>1,058.1</u>	<u>958.4</u>	<u>833.3</u>
Operating income	<u>60.6</u>	<u>109.8</u>	<u>80.3</u>
Equity in unconsolidated operations (note 5)	<u>17.8</u>	<u>22.8</u>	<u>12.8</u>
Other income (expenses):			
Investment income	65.2	67.3	54.3
Interest expense	(14.2)	(17.5)	(20.8)
Amortization of intangible assets	(12.3)	(11.8)	(12.0)
Other (notes 3 and 4)	19.8	(23.9)	(17.7)
	<u>58.5</u>	<u>14.1</u>	<u>3.8</u>
Income from continuing operations before income taxes:	<u>136.9</u>	<u>146.7</u>	<u>96.9</u>
Income taxes (note 6)	<u>62.0</u>	<u>80.1</u>	<u>52.2</u>
Income from continuing operations	<u>74.9</u>	<u>66.6</u>	<u>44.7</u>
Loss from discontinued operations (note 2)	<u>(10.0)</u>	<u>(24.0)</u>	<u>(52.0)</u>
Income (loss) before extraordinary items	<u>64.9</u>	<u>42.6</u>	<u>(7.3)</u>
Extraordinary items (note 6)	<u>3.5</u>	<u>0.6</u>	<u>—</u>
Net income (loss)	<u>\$ 68.4</u>	<u>\$ 43.2</u>	<u>\$ (7.3)</u>
Per share of common stock (note 1):			
Income from continuing operations	\$ 1.77	\$ 1.62	\$ 1.17
Loss from discontinued operations	(.24)	(.58)	(1.36)
Income (loss) before extraordinary items	1.53	1.04	(.19)
Extraordinary items	.09	.01	—
Net income (loss)	<u>\$ 1.62</u>	<u>\$ 1.05</u>	<u>\$ (.19)</u>
Cash dividends	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
Weighted average number of shares	<u>42.3</u>	<u>41.2</u>	<u>38.2</u>

See notes to financial statements.

CONSOLIDATED BALANCE SHEETS

Alexander & Alexander Services Inc.
As of December 31, (in millions)

	1987	1986
ASSETS		
Current assets:		
Cash and investments (principally interest-bearing bank deposits)	\$ 624.7	\$ 573.0
Accounts receivable (net of allowance for doubtful accounts of \$26.3 in 1987 and \$24.4 in 1986):		
Customer accounts	1,211.3	1,192.8
Other	81.3	89.5
Total current assets	<u>1,917.3</u>	<u>1,855.3</u>
Property and equipment—at cost:		
Land and buildings (note 8)	35.8	18.7
Furniture and equipment	274.7	213.0
Leasehold improvements	95.3	74.1
	<u>405.8</u>	<u>305.8</u>
Less accumulated depreciation and amortization	160.4	135.9
Property and equipment—net	<u>245.4</u>	<u>169.9</u>
Other assets:		
Equity in unconsolidated operations (note 5)	90.7	100.3
Assets held for disposal (note 2)	—	31.2
Long-term notes and other receivables (notes 2 and 4)	72.1	—
Intangible assets (net of accumulated amortization of \$70.7 in 1987 and \$53.2 in 1986)	246.4	214.5
Other	37.8	57.4
	<u>\$2,609.7</u>	<u>\$2,428.6</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,634.6	\$1,572.4
Short-term debt (note 7)	15.6	5.1
Accrued compensation	61.5	72.8
Other payables and accrued expenses	142.7	152.2
Total current liabilities	<u>1,854.4</u>	<u>1,802.5</u>
Long-term liabilities:		
Long-term debt (note 8)	150.2	97.9
Deferred income taxes (note 6)	102.3	132.2
Other (notes 2, 11 and 14)	113.4	71.6
Total long-term liabilities	<u>365.9</u>	<u>301.7</u>
Commitments and Contingent Liabilities (notes 2, 4, 12 and 13)		
Stockholders' equity (notes 8, 9 and 10):		
Preferred stock, authorized 9.5 shares \$1 par value; issued and outstanding, none	—	—
Series A Junior Participating Preferred Stock, authorized 0.5 shares \$1 par value; issued and outstanding, none	—	—
Common stock, authorized 60.0 shares \$1 par value; issued 38.7 and 35.4 shares, respectively	38.7	35.4
Class A common stock, authorized 13.0 shares \$.00001 par value; issued and outstanding 3.4 and 5.0 shares, respectively	—	—
Class C common stock, authorized 5.5 shares \$1 par value; issued and outstanding 0.8 and 1.5 shares, respectively	0.8	1.5
Paid-in capital	334.7	327.7
Retained earnings	40.8	14.7
Accumulated translation adjustments	(8.1)	(54.9)
	<u>406.9</u>	<u>324.4</u>
Less treasury stock, at cost, 0.9 shares in 1987, none in 1986	(17.5)	—
Total stockholders' equity	<u>389.4</u>	<u>324.4</u>
	<u>\$2,609.7</u>	<u>\$2,428.6</u>

See notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES
IN FINANCIAL POSITION

Alexander & Alexander Services Inc.

For the three years ended December 31, (in millions)

	1987	1986	1985
Funds from operations:			
Income from continuing operations	\$ 74.9	\$ 66.6	\$ 44.7
Depreciation and amortization	50.5	43.2	38.7
Undistributed income of unconsolidated operations	(9.6)	(11.9)	(4.4)
Deferred income taxes	16.7	4.1	14.1
Gains on disposition of subsidiaries and other assets	(29.5)	—	(11.9)
Other, principally provisions for non-current liabilities	23.5	21.3	4.6
Funds provided from continuing operations	<u>126.5</u>	<u>123.3</u>	<u>85.8</u>
Discontinued operations, net	31.2	(50.8)	(24.8)
Extraordinary items	3.5	0.6	—
Changes in certain working capital items:			
Increase in accounts receivable	(19.9)	(120.0)	(182.1)
Increase in accounts payable	62.2	209.0	205.9
Increase (decrease) in other current liabilities	(26.2)	33.5	104.3
Effect of exchange rate changes on working capital	15.1	11.3	(1.5)
Funds provided from operations	<u>192.4</u>	<u>206.9</u>	<u>187.6</u>
Financing transactions:			
Dividends paid	(42.3)	(41.0)	(36.8)
Increase (decrease) in short-term debt	10.5	(6.7)	(1.1)
Additions to long-term debt	38.3	5.8	41.6
Obligation under capital lease	25.4	—	—
Payments of long-term debt	(12.2)	(33.9)	(94.9)
Shares issued in private placement	—	—	45.2
Purchase of treasury stock	(18.8)	—	—
Other stock transactions	10.9	21.0	15.4
Increase (decrease) in other long-term liabilities	8.7	19.4	(2.6)
Funds provided (used) in financing transactions	<u>20.5</u>	<u>(35.4)</u>	<u>(33.2)</u>
Investment transactions:			
Additions to property—net	75.0	51.9	33.8
Additions to property under capital lease	25.4	—	—
Investment in unconsolidated operations	(21.7)	4.3	13.2
Proceeds from disposition of subsidiaries and other assets	(109.2)	—	(23.8)
Book value of assets sold	79.7	—	11.9
Increase in long-term notes and other receivables	72.1	—	—
Additions to intangible assets, net	24.5	18.2	(9.1)
Other	15.4	6.9	(16.3)
Funds used for investments	<u>161.2</u>	<u>81.3</u>	<u>9.7</u>
Increase in cash and investments	<u>\$ 51.7</u>	<u>\$ 90.2</u>	<u>\$ 144.7</u>

See notes to financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Alexander & Alexander Services Inc.

For the three years ended December 31, (in millions)

	1987	1986	1985
Common Stock:			
Balance, beginning of year	\$ 35.4	\$ 32.5	\$ 27.4
Contributed to an employee benefit plan, 0.2 shares in 1987, 1986 and 1985 (note 11)	0.2	0.2	0.2
Issued for acquisitions of businesses, 0.7, 1.6 and 0.7 shares in 1987, 1986 and 1985, respectively (note 3)	0.7	1.6	0.7
Conversions of Class A and Class C shares into common stock, 2.3, 0.9 and 4.1 shares in 1987, 1986 and 1985, respectively (note 9)	2.3	0.9	4.1
Other	0.1	0.2	0.1
Balance, end of year	<u>\$ 38.7</u>	<u>\$ 35.4</u>	<u>\$ 32.5</u>
Class A Common Stock:			
Balance, beginning of year	\$ 0.0	\$ 0.0	\$ 0.0
Private placement, 1.8 shares (note 9)	—	—	—
Issued for acquisitions of businesses, 0.1 shares in 1985	—	—	—
Conversions into common stock, 1.6, 0.6 and 1.7 shares in 1987, 1986 and 1985, respectively	—	—	—
Balance, end of year	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>
Class C Common Stock:			
Balance, beginning of year	\$ 1.5	\$ 1.8	\$ 4.2
Conversions into common stock, 0.7, 0.3 and 2.4 shares in 1987, 1986 and 1985, respectively	(0.7)	(0.3)	(2.4)
Balance, end of year	<u>\$ 0.8</u>	<u>\$ 1.5</u>	<u>\$ 1.8</u>
Paid-In Capital:			
Balance, beginning of year	\$327.7	\$308.8	\$250.8
Contributed to an employee benefit plan	4.8	6.0	4.7
Issued for acquisitions of businesses	0.6	9.1	6.0
Conversions into common stock	(1.6)	(0.6)	(1.7)
Private placement	—	—	45.2
Other	3.2	4.4	3.8
Balance, end of year	<u>\$334.7</u>	<u>\$327.7</u>	<u>\$308.8</u>
Retained Earnings:			
Balance, beginning of year	\$ 14.7	\$ 13.0	\$ 62.1
Net income (loss)	68.4	43.2	(7.3)
Adjustment to conform fiscal year of pooled company	—	—	(4.9)
Dividends:			
Common stock	(42.3)	(41.0)	(30.8)
Pooled company	—	—	(6.0)
Other	—	(0.5)	(0.1)
Balance, end of year	<u>\$ 40.8</u>	<u>\$ 14.7</u>	<u>\$ 13.0</u>
Accumulated Translation Adjustments:			
Balance, beginning of year	\$ (54.9)	\$ (72.1)	\$ (80.9)
Foreign currency translation adjustments	46.8	17.2	8.8
Balance, end of year	<u>\$ (8.1)</u>	<u>\$ (54.9)</u>	<u>\$ (72.1)</u>
Treasury Stock:			
Balance, beginning of year	\$ —	\$ —	\$ —
Purchase of 1.0 shares	(18.8)	—	—
Issued to an employee benefit plan, 0.1 shares	1.3	—	—
Balance, end of year	<u>\$ (17.5)</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

in millions
except per share amounts

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the accounts of Alexander & Alexander Services Inc. and its majority-owned domestic and international subsidiaries. All significant intercompany transactions and balances between consolidated subsidiaries have been eliminated.

The Company's unconsolidated subsidiaries and affiliates are accounted for on the equity method (see Note 5). Reference is made to Note 2 for discussion of the Company's discontinued operations.

Foreign Currency Translation

Assets and liabilities of the Company's international operations are translated at current exchange rates. Operating results are translated at average rates of exchange prevailing during the year. Unrealized gains or losses resulting from translation, including transactions which hedge a foreign currency investment or long-term intercompany investment, are included as a separate component of stockholders' equity.

Forward exchange contracts are purchased by the Company to hedge the impact of currency fluctuations affecting operations of certain foreign subsidiaries. Gains and losses on these hedging contracts generally are recognized in the period the hedged transactions are realized. Net foreign currency transaction gains (losses), amounting to \$1.2 million, \$(1.0) million and \$(3.0) million for the years ended December 31, 1987, 1986 and 1985, respectively, are included in the determination of income from continuing operations.

Property and Depreciation

The cost of property and equipment is depreciated generally on the straight-line method over the estimated useful lives of the related assets which range up to 40 years for buildings and ten years for equipment. Leasehold improvements are capitalized and amortized over the shorter of the life of the asset or the lease term. Maintenance and repair costs are charged to operations when incurred.

Intangible Assets

Intangible assets resulting from acquisitions, principally expiration lists and goodwill, are amortized on the straight-line method over periods not exceeding 17 and 40 years, respectively. The costs of non-compete agreements are amortized on the straight-line method over the terms of the agreements.

Income Taxes

Deferred income taxes are provided on revenue and expense items recognized for financial accounting

purposes in different periods than for income tax purposes. Income taxes are generally not provided on undistributed earnings of foreign subsidiaries because they are considered to be permanently invested. Investment tax credits, prior to January 1, 1986, were included as a reduction of federal income tax expense in the year the asset was placed into service. The Tax Reform Act of 1986 repealed the investment tax credit for property placed into service after December 31, 1985.

Fiduciary Funds

Premiums which are due from insureds are reported as assets of the Company and as corresponding liabilities, net of commissions, to the insurance carriers. Premiums received from insureds but not yet remitted to the carriers are held as cash or investments in a fiduciary capacity where required by regulation.

Revenue Recognition

Commissions are recognized generally on the effective date of the policies or the billing date, whichever is later. Any subsequent premium adjustments, including policy cancellations, are recognized upon notification from the insurance carriers. Contingent commissions, commissions on policies billed and collected directly by insurance carriers and profit-sharing commissions from Lloyd's syndicates are recognized when received. Fees for services rendered are generally recognized when earned.

Presentation

Unless otherwise indicated, all amounts are stated in millions of U.S. dollars. Certain prior period amounts have been reclassified to conform with the 1987 presentation.

Per Share Data

Earnings per share are based on the weighted average number of common shares and their economic equivalents (see Note 9) outstanding during each period, adjusted for shares issued in poolings and, if dilutive, shares issuable under stock option plans or debenture conversion rights. Dividends per share are based on the Company's common and economic equivalent shares outstanding at each record date.

2. DISCONTINUED OPERATIONS

In March, 1985, the Company announced its intention to discontinue the insurance underwriting subsidiaries acquired in 1982 as part of the Alexander Howden Group plc ("Alexander Howden")

acquisition. Accordingly, the estimated loss on disposal, which includes estimated operating results through disposal or run-off and estimated realizable values, is presented separately from continuing operations in the Consolidated Statements of Income.

The Company has completed the divestitures of the entities held for sale. Effective January 1, 1987, the Company sold Sphere Drake Insurance Group ("Sphere Drake") for approximately \$55.5 million, including the settlement of an intercompany balance of \$24.3 million. To provide security to the buyer in connection with certain indemnities, on December 30, 1987, the Company purchased a \$24.5 million zero coupon senior note bearing interest at 10% and a \$24.0 million zero coupon subordinated note bearing interest at 12%, both due in 1995. Payment by the buyer of the notes is subject, effectively, to offset based upon the adequacy of the loss reserves and reinsurance recoverables recorded on the books of Sphere Drake at December 31, 1986. These notes are included in the Company's Consolidated Balance Sheets at a discounted value of \$36.4 million at December 31, 1987.

The sale agreement provides indemnities from the Company for various potential liabilities of Sphere Drake. Certain indemnities, which relate to operations of Sphere Drake prior to the sale, are not limited in time and amount. Other indemnities, which relate to Sphere Drake's loss reserves and reinsurance recoverables attributable to 1986 and prior underwriting years, are limited in time (expiring June 30, 1995) and amount, up to the value of the notes and related interest thereon. The Company may be obligated, under certain circumstances, to provide a credit facility to the buyer with respect to these latter indemnities. The Company will defer recognizing the related interest income on these notes in the Consolidated Statements of Income until realization is assured.

The remaining Bermuda and Atlanta discontinued insurance companies continue in a run-off mode of operation. The Company is proceeding with its plans to liquidate or otherwise dispose of these operations.

Loss on Disposal

The components of the estimated loss on disposal and related income tax provisions (benefits) are as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
United States	\$ (6.6)	\$(23.4)	\$ (95.4)
International	(12.3)	(14.0)	(10.2)
	(18.9)	(37.4)	(105.6)
Less: Income Tax Provisions (Benefits)			
Federal			
Current	(2.8)	(8.9)	(36.3)
Deferred	1.7	(1.4)	(10.1)
Foreign			
Current	(5.6)	(2.3)	(5.2)
Deferred	(2.2)	(0.8)	(2.0)
	\$(10.0)	\$(24.0)	\$ (52.0)

The 1987 additional provision relates primarily to the recorded loss on the disposal of Sphere Drake. The additional provisions in 1986 and 1985 relate primarily to the Atlanta and Bermuda companies and resulted from the need to strengthen insurance underwriting reserves by approximately \$21.0 million and \$43.0 million, respectively, and to increase the allowance for doubtful reinsurance recoverables by approximately \$10.0 million and \$60.0 million, respectively.

Net Assets (Liabilities) of Discontinued Operations

A summary of the net assets (liabilities) of the Company's discontinued operations as of December 31, 1987 and 1986 is as follows:

	1987	1986
Assets		
Cash and investments	\$ 69.2	\$250.1
Accounts receivable	44.8	184.9
Income taxes receivable from parent	7.6	38.9
Other assets	9.1	25.9
	\$130.7	\$499.8
Liabilities		
Claim liabilities	\$102.8	\$368.4
Other liabilities	22.7	77.1
	125.5	445.5
Reserve for estimated loss on disposal (see below)	15.3	23.1
	140.8	468.6
Net assets (liabilities) of discontinued operations	\$ (10.1)	\$ 31.2

During 1987, the Company remitted approximately \$34.4 million to Atlanta International Insurance Company representing principally tax benefits from prior years' losses. In addition, the Company contributed \$5.5 million of additional capital to a Bermuda insurance company to fund the run-off of claim liabilities. The net liabilities of the Company's discontinued operations at December 31, 1987 are included in other long-term liabilities in the Consolidated Balance Sheets.

During 1986, the Company contributed \$22.0 million of additional capital to Sphere Drake in order to meet London market expectations with respect to operating ratios necessary for the ongoing conduct of its insurance operations. This capital infusion was funded from borrowings which were paid off with proceeds from the 1987 sale of Sphere Drake. Also, during 1986, the Company contributed additional capital of \$20.0 million to the Atlanta insurance companies in order to meet statutory surplus requirements.

An analysis of the Company's reserve for estimated loss on disposal of its discontinued operations is as follows:

	1987	1986	1985
Balance, beginning of year	\$23.1	\$ 20.3	\$ 25.5
Provision recorded for estimated loss on disposal	10.0	24.0	52.0
Operating income (loss) of:			
Companies held for sale	—	3.0	(6.7)
Companies being run-off	(4.4)	(22.2)	(48.9)
Gain (loss) on divestitures	(7.8)	1.2	—
Other	(5.6)	(3.2)	(1.6)
Balance, end of year	\$15.3	\$ 23.1	\$ 20.3

While the reserve is based upon management's best judgment, there is no assurance that further adverse developments may not occur due to the variables inherent in the estimation process.

3. ACQUISITIONS

Poolings of Interests

Effective July 31, 1985, the Company acquired all of the voting equity securities of Reed Stenhouse Companies Limited (RSC) in exchange for approximately 9.6 million economic equivalent shares of the Company's common stock (reference is made to Note 9 for a description of the economic equivalent shares). To complete the combination and integrate the operations of RSC, certain costs and expenses of \$20.5 million were incurred in 1985 and are included in Other income (expenses) in the Consolidated Statements of Income.

The total number of shares issued in transactions accounted for as poolings of interests, excluding the RSC acquisition, aggregated 0.6 million, 1.5 million and 0.7 million during 1987, 1986 and 1985, respectively. Operating results of these businesses for periods prior to their acquisition were not significant; as such, prior period information has not been restated.

Purchases

On December 31, 1987, the Company acquired an approximate 75% interest in a previously accounted-for equity investment located in the Netherlands for approximately \$15.3 million. The excess of the purchase price over the proportionate share of the net assets acquired was approximately \$9.7 million and will be amortized over periods not exceeding 40 years.

Excluding this acquisition, the cost of businesses acquired in transactions accounted for as purchases aggregated \$9.5 million (including 0.1 million shares of common stock) and \$4.5 million (including 0.1 million shares of common stock) during 1987 and

1986, respectively. There were no purchases in 1985. The excess of the total acquisition costs over the fair value of the net assets acquired was \$8.9 million and \$5.1 million, respectively, and is being amortized over periods not exceeding 40 years.

Operating results of these businesses for periods prior to their acquisition were not significant.

4. DISPOSITIONS

Subsidiaries

In 1987, the Company sold its domestic underwriting management subsidiary, Shand, Morahan & Company, Inc. ("Shand") for approximate book value of \$62.8 million. The proceeds included \$11.0 million cash, net of an intercompany balance of \$19.5 million, and a deferred payment of \$32.3 million plus interest due in 1992. Of the total deferred payment, \$29.3 million is subject to offset based upon the adequacy of the loss reserves and reinsurance recoverables recorded, as of December 31, 1986, on the books of Evanston Services Inc., a 52% owned insurance underwriting subsidiary of Shand.

The Company will defer recognizing the related interest income on the deferred payment in the Consolidated Statements of Income until realization is assured. In addition, the Company has agreed to indemnify the purchasers of Shand against certain contingencies, including the Mutual Fire, Marine and Inland Insurance Company contingency described in Note 13. There are preliminary indications that there may have been some deterioration in loss reserves and reinsurance recoverables subject to offset, the amount of which depends upon the interpretations of the sales contract. However, the Company believes that interest on the deferred portion of the purchase price will be sufficient to meet any required indemnifications and offset.

In 1987, the Company also sold a Canadian insurance broking subsidiary for approximately \$11.0 million of which \$6.5 million was received at closing. The remainder of the purchase price is to be received in installments through 1991 and is subject to certain indemnifications. A pre-tax gain of \$7.5 million has been recognized on the sale.

During 1985, the Company sold its Lloyd's managing agency businesses for cash of \$23.8 million, resulting in a pre-tax gain of \$11.9 million. The sale was mandated by United Kingdom law.

Operating revenues, equity earnings (loss) and pre-tax earnings (loss) for these subsidiaries through date of sale are as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
Operating revenues	\$31.9	\$54.4	\$69.0
Equity earnings (loss)	2.0	3.4	(1.4)
Income (loss) before tax	(0.8)	12.1	19.4

The pre-tax gains on these divestitures are included in Other income (expenses) in the Consolidated Statements of Income.

Other Assets

During 1987, a wholly owned United Kingdom subsidiary and a 50% owned French subsidiary sold their respective office buildings for cash of approximately \$35.3 million. The pre-tax gains, included in Other income (expense), and the after-tax gains on these transactions were approximately \$15.3 million and \$11.7 million, respectively.

5. UNCONSOLIDATED OPERATIONS

The Company's equity in the net operating results and net assets of its unconsolidated subsidiaries and affiliates is as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
Equity in net operating results:			
Premium finance (A)	\$ 9.5	\$ 13.1	\$ 6.9
Other unconsolidated subsidiaries and affiliates (B)	8.3	9.7	5.9
Income before taxes	17.8	22.8	12.8
Income taxes	7.5	7.8	2.9
Net income	\$10.3	\$ 15.0	\$ 9.9
<i>As of December 31,</i>	1987	1986	
Equity in net assets:			
Premium finance (A)	\$41.9	\$ 35.0	
Other unconsolidated subsidiaries and affiliates (B)	48.8	65.3	
	\$90.7	\$100.3	

At December 31, 1987, the Company's share of the unremitted earnings of unconsolidated operations was approximately \$31.3 million.

(A) Premium Finance

TIFCO Inc. ("TIFCO"), a wholly owned subsidiary, is engaged in the financing of insurance pre-

miums for clients of insurance agents and brokers, including clients of the Company. Summary financial information is as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
Revenues	\$31.8	\$ 37.0	\$27.0
Expenses	22.3	23.9	20.1
Income before income taxes	9.5	13.1	6.9
Income taxes	4.2	6.4	3.4
Net income	\$ 5.3	\$ 6.7	\$ 3.5
<i>As of December 31,</i>	1987	1986	
Assets:			
Cash	\$ (.5)	\$ (7.5)	
Receivables	214.2	226.9	
Property and other assets	26.8	27.2	
	\$240.5	\$246.6	
Liabilities and stockholder's equity:			
Accounts payable	\$ 17.5	\$ 17.0	
Notes payable and long-term debt	172.8	178.8	
Other liabilities	8.3	15.8	
Stockholder's equity	41.9	35.0	
	\$240.5	\$246.6	

During 1987, TIFCO renewed an agreement with a financial institution to sell, with limited recourse, \$150.0 million of interests in designated pools of premium financing notes. Subsequent collections of these notes are reinvested in the pool to maintain an aggregate outstanding balance of approximately \$150.0 million, which remained uncollected at December 31, 1987 and 1986.

At December 31, 1987, TIFCO has committed unsecured lines of credit totaling \$145.0 million as support for its commercial paper program, plus a line of credit provided by the Company equal to 25% of such outstanding debt. The amount of commercial paper outstanding was approximately \$125.5 million and \$133.0 million at December 31, 1987 and 1986, respectively.

In August 1985, TIFCO entered into a sale-leaseback transaction with Shand for the purchase of an office building. The cost of the office building was approximately \$23.3 million, of which \$20.9 million was financed with non-recourse mortgage notes. The primary lease term is 25 years and, prior to the sale of Shand as described in Note 4, was accounted for as an operating lease. In connection with the sale of Shand, the existing lease agreement was modified. The modified terms include a provision

whereby the new owners of Shand have an option to purchase the building at the greater of the outstanding mortgage balance or the book value of the building. After March 1, 1995, TIFCO also has the option, under the same terms, to require the new owner of Shand to purchase the building.

Under the terms of the amended agreement, the lease is now accounted for as a direct financing lease. The components of the net investment in the lease as of December 31, 1987 are as follows:

Future minimum lease payments	\$ 80.5
Unguaranteed residual value	7.9
Less: Unearned income	(66.0)
Net investment	\$ 22.4

Minimum lease payments to be received under the lease are \$2.2 million, \$2.3 million, \$2.4 million, \$2.5 million and \$2.6 million for the years 1988 through 1992, respectively.

(B) *Other Unconsolidated Subsidiaries and Affiliates*

The Company has investments in special purpose insurance companies at December 31, 1987, including a wholly owned Bermuda insurance company, which primarily underwrites financing transactions, and a wholly owned Vermont captive company. Results of operations for the three years ended December 31, 1987 also include Evanston Services Inc. (see Note 2) and Security National Insurance Company (100% owned), both of which were sold in 1987. Amounts for 1987 include results through date of sale for these entities.

In addition, the Company has equity investments of 50% or less in insurance broking companies located worldwide.

Summary financial information is as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
Revenues	\$157.8	\$224.1	\$110.5
Expenses	137.7	204.6	108.2
Income before income taxes	20.1	19.5	2.3
Income taxes	5.5	4.1	1.8
Net income	\$ 14.6	\$ 15.4	\$.5

<i>As of December 31,</i>	1987	1986
Assets:		
Cash and investments	\$173.2	\$434.8
Receivables	76.1	149.4
Property and other assets	17.4	41.3
	<u>\$266.7</u>	<u>\$625.5</u>
Liabilities and stockholders' equity:		
Claim liabilities	\$ 43.8	\$299.4
Accounts payable	129.2	153.8
Notes payable	3.3	42.2
Other liabilities	10.1	20.6
Stockholders' equity	80.3	109.5
	<u>\$266.7</u>	<u>\$625.5</u>

Under the recently issued Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority-Owned Subsidiaries," the Company will be required to consolidate all majority-owned subsidiaries in 1988. The various implementation issues associated with this Statement will be evaluated during 1988; however, it is not anticipated to have any adverse impact to the Company.

6. INCOME TAXES

The components of income from continuing operations before income taxes are as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
United States	\$ 66.9	\$ 86.4	\$49.1
Foreign	70.0	60.3	47.8
	<u>\$136.9</u>	<u>\$146.7</u>	<u>\$96.9</u>

The components of the provision for income taxes on continuing operations are as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
Federal:			
Current	\$12.2	\$41.4	\$18.9
Deferred	14.4	1.7	8.7
State and local:			
Current	5.7	8.6	1.5
Deferred	(0.2)	(1.8)	1.4
Foreign:			
Current	27.4	26.0	17.7
Deferred	2.5	4.2	4.0
	<u>\$62.0</u>	<u>\$80.1</u>	<u>\$52.2</u>

The Company files a U.S. federal consolidated tax return which includes the losses of its U.S. discontinued operations. The current federal provision recognizes the amounts payable to the discontinued operations for the tax benefits relating to such losses. Similar arrangements existed to recognize the tax benefits relating to the losses incurred in 1985 for the United Kingdom discontinued operations (see Note 2).

The components of the deferred income tax provision on continuing operations are as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
Excess of tax over book depreciation	\$ 2.2	\$ 3.1	\$ 3.1
Tax leases	(3.2)	1.6	15.5
Financial accruals not currently deductible	0.4	(17.4)	(4.2)
Alexander Howden loss deduction (see below)	—	41.6	—
Net operating loss and other tax credit carryforwards	17.4	(25.1)	—
Other	(0.1)	0.3	(0.3)
	<u>\$16.7</u>	<u>\$ 4.1</u>	<u>\$14.1</u>

A reconciliation of the tax provision and the amount computed by applying the U.S. Federal Income tax rate of 40% in 1987 and 46% in 1986 and 1985 to income from continuing operations before income taxes is as follows:

<i>For the years ended December 31,</i>	1987	1986	1985
Computed "expected" tax expense	\$54.8	\$67.5	\$44.6
State and local income taxes—net of federal income tax	3.4	3.7	2.7
Foreign statutory rates under U.S. Federal statutory rate	(0.6)	(1.4)	(2.5)
Benefit of income taxed at capital gains rates	(3.8)	(0.2)	(6.2)
Subsidiaries' losses receiving no current tax benefit	1.7	2.0	0.6
Tax credits	(0.5)	(0.5)	(1.9)
Amortization of intangible assets	2.1	2.5	5.8
Other non-deductible expenses	2.7	4.2	2.7
Adjustment to prior year estimated tax provisions	1.5	4.4	3.0
Other, net	0.7	(2.1)	3.4
Total tax provision	\$62.0	\$80.1	\$52.2

During the years 1982, 1986 and 1987, tax deductions totalling \$132.8 million, net of estimated recoveries, were claimed by the Company for a loss sustained in connection with the acquisition of Alexander Howden. The \$61.1 million in tax benefits associated with these tax deductions are reflected in the deferred income tax balances in the Consolidated Balance Sheets and will not be recognized for income statement purposes until realization is reasonably assured. In a Revenue Agent's Report anticipated in connection with the audit of the Company's 1982 tax returns, the Internal Revenue Service (IRS) will disallow the \$43.1 million tax deduction which was claimed in 1982. The Company is in the process of preparing an appeal of this determination to the Appellate Division of the IRS. It is the Company's opinion that the amounts not yet recognized for income statement purposes are sufficient to cover any potential liability arising out of this issue.

In 1983 and 1984, \$23.9 million in tax deductions were claimed by the Company in connection with payments, to an unrelated third party, for an indemnification policy against the potential adverse effects on the Company from losses arising out of certain underwriting exposures. The related tax benefit of \$11.4 million was recognized in the Company's 1983 income statement. In connection with the current examination of the Company's 1983 through 1985 income tax returns, these deductions will be reviewed by the IRS; however, the Company believes it will be successful in sustaining these deductions.

The extraordinary credit of \$3.5 million in 1987 and \$0.6 million in 1986 represents the realization of tax benefits resulting from the utilization of approxi-

mately \$8.7 million and \$1.2 million, respectively, of net operating loss carryforwards attributable to the U.S. operations of RSC prior to the merger. At December 31, 1987, the Company had, for financial reporting purposes, a net operating loss carryforward relating to these operations of approximately \$10.8 million which will expire in the years 1993 to 1997.

At December 31, 1987, the net undistributed earnings of consolidated and unconsolidated foreign subsidiaries aggregated approximately \$171.4 million. Since these earnings are considered permanently invested, there is no provision for additional U.S. income taxes which might result upon distribution of such earnings; however, foreign tax credits could be available to offset part or all of the U.S. income taxes which would be incurred.

Under the recently issued Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, the Company will be required to adjust its balance sheet tax liabilities to the liability method of reporting instead of the deferred method no later than 1989. Under this newly prescribed method, future tax liabilities are required to be adjusted in a current period to reflect changes in income tax rates. The Company has not yet completed all of the complex analyses required to estimate the impact of the new Statement and has not yet decided whether it will implement before 1989 or restate any prior periods. However, the adoption of the Statement is presently not expected to have an adverse impact on the Company's financial position.

7. SHORT-TERM DEBT

Consolidated short-term debt consists of the following:

<i>As of December 31,</i>	1987	1986
Commercial paper	\$34.8	\$ 9.9
Notes payable to banks	20.2	—
Current portion of long-term debt (Note 8)	10.6	5.1
	65.6	15.0
Less short-term debt reclassified as long-term (Note 8)	50.0	9.9
	\$15.6	\$ 5.1

Information with respect to short-term borrowing activity is as follows:

<i>As of December 31,</i>	1987	1986	1985
Commercial paper:			
Balance at year end	\$34.8	\$ 9.9	\$32.8
Weighted average interest rate	8.3%	6.4%	8.3%
Maximum outstanding	\$50.0	\$75.1	\$62.1
Average outstanding	\$29.7	\$45.9	\$25.0
Weighted average interest rate during the year	7.0%	7.3%	8.4%
Notes payable to banks:			
Balance at year end	\$20.2	\$ —	\$ 1.6
Weighted average interest rate	8.2%	—	12.0%
Maximum outstanding	\$21.1	\$ 1.6	\$50.9
Average outstanding	\$ 4.3	\$ 0.3	\$28.0
Weighted average interest rate during the year	8.8%	12.0%	9.6%

The maximum outstanding above reflects the maximum amount of each category outstanding at any month end. The maximum aggregate short-term debt outstanding at any month end was \$56.1 million, \$75.1 million and \$84.6 million in 1987, 1986 and 1985, respectively.

In addition to the \$50 million credit facility described in Note 8(B), the Company has committed unsecured lines of credit totaling \$91.3 million as support for outstanding commercial paper of which \$46.6 million was unused as of December 31, 1987. The lines may be drawn as needed with interest at market rates and carry an annual commitment fee of no greater than 1/4% of the line. In addition, the Company has approximately \$41.7 million in unused bank lines of credit, subject to bank approval for each drawing, which are available for general corporate purposes.

8. LONG-TERM DEBT

Long-term debt outstanding is as follows:

<i>As of December 31,</i>	1987	1986
11% Convertible subordinated debentures (A)	\$ 67.6	\$ 74.4
Long-term credit agreement (B)	50.0	9.9
Term bank loan (C)	5.3	5.0
Obligation under capital lease (D)	25.4	—
Other	12.5	13.7
	160.8	103.0
Less current portion (Note 7)	10.6	5.1
	\$150.2	\$ 97.9

The principal portion of payments required during the next five years excluding the obligation under capital lease and the reclassification of the long-term credit agreement is \$9.6 million in 1988, \$3.9 million in 1989, \$1.7 million in 1990, \$1.1 million in 1991, and \$0.9 million in 1992.

(A) 11% Convertible Subordinated Debentures

The debentures are unsecured subordinated obligations maturing April 15, 2007. The debentures were issued in connection with the acquisition of Alexander Howden under an Indenture agreement dated February 1, 1982 and are convertible into common shares at \$39 per share, subject to adjustment under certain conditions and to prior redemption. During the fourth quarter of 1987, the Company made open market purchases of \$6.8 million principal amount of the debentures at a cost of \$6.9 million. The remaining debentures are redeemable any time, at the Company's option, at 107.33% of par value prior to April 15, 1988 and at declining prices thereafter until April 15, 1997. Commencing April 15, 1992, five percent of the aggregate principal amount outstanding as of October 15, 1991 must be redeemed at the principal amount through the operation of a mandatory sinking fund.

(B) Long-Term Credit Agreement

The Company has a five-year, \$50 million credit agreement with a bank which expires in June 1989. The agreement, as amended effective May 6, 1987, contains various restrictions including limits on minimum net worth, maximum consolidated debt, minimum interest coverage and minimum consolidated cash flow from continuing operations. The Company has the option to select domestic or Eurocurrency borrowings priced at a spread over the appropriate index. The Company has not borrowed under this agreement.

In the event short-term borrowings cannot be made advantageously, the Company intends to use this facility to refinance a portion of its short-term borrowings on a long-term basis. Accordingly, \$50.0 million and \$9.9 million of short-term debt has been reclassified as long-term debt at December 31, 1987 and 1986, respectively.

(C) Term Bank Loan

The Term Bank Loan is an unsecured obligation of RSC. This borrowing is payable in Canadian dollars at 1/4% below the Canadian Bank Prime Rate (9.2% at December 31, 1987). The Company intends to replace the borrowing with a new three-year credit agreement of up to Canadian \$15.0 million.

(D) Obligation Under Capital Lease

Effective December 31, 1987, a 50% owned French subsidiary entered into a lease agreement for office facilities which is classified as a capital lease. Future minimum lease payment obligations as of December 31, 1987 are as follows:

1988	\$ 2.1
1989	2.1
1990	2.2
1991	2.2
1992	2.3
Thereafter	43.5
Total minimum lease payments	54.4
Less amounts representing interest	29.0
Present value of minimum lease payments	25.4
Less current portion of obligation under capital lease	1.0
Long-term obligation under capital lease	\$24.4

9. COMMON AND PREFERRED STOCK*Common Stock*

In connection with the RSC merger in 1985, the Company issued two new classes of voting equity securities, Class A and Class C shares, with voting rights equal to the Company's Common Stock. Associated with each such share is a dividend paying share issued by a Canadian (RSC Class 1 Share) or a United Kingdom (AAE Dividend Share) subsidiary, which pays dividends in Canadian dollars and sterling, respectively, equivalent to the dividends paid on shares of common stock. Holders of these securities, therefore, hold the economic equivalent of shares of common stock. Each Class A Share (together with an RSC Class 1 Share) and Class C Share (together with an AAE Dividend Share) may be exchanged at any time for a share of common stock.

In September 1985, 1,750,000 economic equivalent shares were issued in a private placement in Canada to a group of Canadian institutions. The offering was made pursuant to certain private exemptions contained in Canadian provincial securities legislation.

At December 31, 1987, the Company had 2.9 million shares of common stock reserved for issuance under employee stock option plans, 0.2 shares reserved for contingent issuance under business purchase agreements, 1.7 million shares reserved for issuance in the event of conversion of the 11% convertible subordinated debentures and 4.1 million shares reserved for issuance upon redemption or conversion of the Class A and Class C common shares.

Dividend Restrictions

No dividends may be declared and paid on the Company's common stock unless an equivalent amount per share is declared and paid on the economic equivalent shares. Accordingly, the Company's ability to pay dividends is limited by the amounts available to the Canadian and U.K. subsidiaries for such purposes. These amounts approximate Canadian \$40.8 million or \$31.3 million, assuming certain solvency tests are met under Canadian law, and sterling £34.8 million or \$65.5 million, respectively, at December 31, 1987. In the event sufficient earnings are not available in Canada or the United Kingdom to declare dividends, the Company's legal structure allows it to make earnings or capital available in those countries to pay dividends.

Preferred Stock and Related Rights

The Company's preferred stock can be issued in one or more series with full or limited voting rights, with the rights of each series to be determined by the board of directors before each issuance.

On June 11, 1987, the board of directors adopted a resolution authorizing a series of preferred stock, Series A Junior Participating Preferred Stock ("Preferred Shares"), \$1.00 par value per share. At the same time, a dividend of one preferred share purchase right ("Right") was declared for each outstanding share of common stock and each common stock equivalent. Each subsequently issued share will also carry such a Right. Each Right entitles the holder thereof to buy one one-hundredth of a Preferred Share at a price of \$85. The Rights will become exercisable only if a person or group acquires 20% or more of the Company's voting shares or announces a tender

or exchange offer for 30% or more of such voting shares. If the Company is subsequently acquired, each Right will entitle its holder to purchase, at the then-current exercise price, stock of the surviving company having a market value of twice the exercise price of each Right. The Rights, which expire on July 6, 1997, are redeemable by action of the board of directors prior to becoming exercisable at a redemption price of \$.01 per Right.

Treasury Stock

In October 1987, the board of directors authorized and the Company thereafter purchased one million shares of the Company's common stock. The shares were purchased in the open market and will only be used to meet short-term obligations under various employee stock option and benefit plans as well as to satisfy deferred payment commitments for previously acquired companies. In February 1988, the board of directors authorized the purchase of up to an additional two million shares, depending upon market price and conditions.

10. STOCK OPTION AND INCENTIVE PLANS

The Company's Long-Term Compensation Program, adopted in 1982, consists of three independent plans as follows:

The *1982 Key Employee Stock Option Plan* provides for the granting of incentive stock options and non-qualified options to officers and key employees for a maximum of 2,325,000 shares of the Company's common stock. These options may be granted at not less than fair market value of the common stock on the date of grant and become exercisable as specified at date of grant. In May 1987, the shareholders of the Company approved amendments to the plan including an increase in the number of shares authorized for issuance from 1,175,000 shares to 2,100,000 shares plus 225,000 shares previously reserved for issuance under the 1982 Executive Performance Bonus Plan and the authorization to grant stock appreciation rights in conjunction with non-qualified options. Incentive stock options expire ten years from the date of grant while the 1987 amendment to the plan provides for the extension of the exercise period for non-qualified options granted after December 31, 1986 to ten years and one day from date of grant.

In November 1987, the board of directors approved an invitation to employees who received

stock options in 1986, other than the inside directors of the Company, to participate in an exchange and conversion program whereby such 1986 options were cancelled in exchange for new non-qualified options covering a lesser number of shares at a lower option price. These new options will become exercisable in full one year from the date of the new grant. As a condition of the exchange, the participants were required to agree to the conversion of all unexercised incentive stock options granted from 1982 through 1985 into non-qualified options. At December 31, 1987, there were 428,307 shares (option price of \$38.625) surrendered in exchange for 215,340 shares at an option price of \$17.75 per share. In addition, 362,100 shares were converted from incentive stock options to non-qualified options.

The *1982 Executive Performance Bonus Plan* provides for the granting of performance awards based upon certain performance criteria as determined by the Compensation Committee of the board. In 1986 and 1985, approximately \$1.8 million and \$1.4 million, respectively, was provided for awards of which approximately \$1.5 million was paid in 1987. Payment of the remaining balance has been deferred to future years. No awards were granted in 1987.

The *1982 Key Employee Restricted Stock Award Plan* provides for the granting of shares of the Company's common stock subject to various restrictions which limit the sale or other transfer of the shares until the expiration of a specified time period. The shares are subject to forfeiture if the participant does not remain in the employ of the Company throughout the restricted period. A maximum of 325,000 shares may be issued under the plan. There were 96,367 shares, 51,616 shares and 60,195 shares awarded during 1987, 1986 and 1985, respectively.

In 1982, the Long-Term Capital Accumulation Program was replaced by the Long-Term Compensation Program described above with all options, totaling 733,932 shares, and awards remaining in effect. The options are fully exercisable and expire ten years from grant date.

Option transactions under the programs were as follows:

	Number of Shares	Option Price Per Share Range
Outstanding, January 1, 1985	1,063,775	\$17.06-\$32.88
Granted	205,270	24.50- 28.88
Exercised	(48,926)	17.06- 23.19
Cancelled	(44,163)	
Outstanding, December 31, 1985	1,175,956	\$17.06-\$32.88
Granted	553,257	38.63
Exercised	(134,779)	17.06- 31.13
Cancelled	(47,848)	
Outstanding, December 31, 1986	1,546,586	\$17.75-\$38.63
Granted	956,600	17.75- 25.38
Exercised	(48,344)	17.75- 24.50
Cancelled	(513,240)	
Outstanding, December 31, 1987	1,941,602	\$17.75-\$38.63

The number of options exercisable at December 31, 1987, 1986 and 1985 were 856,463, 759,811 and 719,209, respectively.

11. EMPLOYEES' RETIREMENT PLANS AND BENEFITS

Pension Plans

The Company has contributory and non-contributory defined benefit pension plans covering substantially all domestic and international employees. The plans generally provide pension benefits that are based on the employee's years of service and compensation prior to retirement. In general, it is the Company's policy to fund these plans consistent with laws and regulations of the respective taxing jurisdictions in which the Company operates. An overfunding exists in the United States' largest plan. As a result, the Company will not make any contributions to this plan until the overfunding is substantially reduced.

United States Plans

Effective January 1, 1985, the Company adopted Statement of Financial Accounting Standards No. 87 for its United States pension plans. For these plans, net periodic pension provision (credit) is summarized as follows:

	1987	1986	1985
Service cost	\$ 15.3	\$ 10.4	\$ 7.8
Interest cost	13.4	10.8	9.3
Actual return on plan assets	(10.9)	(26.4)	(38.1)
Net amortization and deferral	(13.8)	5.6	20.5
Net periodic pension provision (credit)	\$ 4.0	\$ 0.4	\$ (0.5)

The following table sets forth the funded status and amounts recognized in the Company's Consolidated Balance Sheet as of December 31:

	1987	1986
Vested benefit obligation	\$ 103.4	\$ 100.2
Accumulated benefit obligation	\$ 115.3	\$ 112.1
Projected benefit obligation	\$(153.4)	\$(167.1)
Plan assets at fair market value	200.1	196.2
Excess of plan assets over projected benefit obligation	46.7	29.1
Unrecognized net (gain) loss	(13.6)	14.4
Unrecognized prior service cost	3.1	-
Unrecognized net assets being amortized over 16 years	(40.3)	(43.2)
(Accrued)/Prepaid pension cost	\$ (4.1)	\$ 0.3
Assumed discount rate	9.50%	8.00%
Assumed rate of compensation increase	6.00%	7.00%
Expected rate of return on plan assets	10.75%	10.75%

At December 31, 1987 approximately 48% of plan assets are invested in equity securities and 52% in cash equivalents or debt securities.

International Plans

International pension expense totaled \$16.1 million in 1987, \$13.2 million in 1986 and \$9.5 million in 1985. As of their latest actuarial valuation dates, the Company's foreign pension plans have approximately \$201.8 million of pension fund assets compared with \$170.7 million of estimated vested benefits payable.

Thrift Plans

The Company maintains thrift plans for most U.S. and Canadian employees. Under the thrift plan, eligible employees may contribute amounts through payroll deduction, supplemented by Company contributions, for investments in various funds established by the plan. The cost of these plans was \$6.7 million (including 0.2 million shares of common stock valued at \$5.0 million) in 1987, \$7.3 million (including 0.2 million shares of common stock valued at \$6.2 million) in 1986, and \$5.8 million (including 0.2 million shares of common stock valued at \$4.9 million) in 1985.

Post-Retirement Benefits

Substantially all of the Company's United States employees, and employees in certain foreign countries, may become eligible for certain health care (up to age 65 in the United States) and life insurance benefits if they reach normal retirement age while working for the Company. The cost of providing those benefits for 1,600 retirees is not separable from the cost of providing benefits for the 14,800 active employees. The total cost of these benefits for both active and retired employees was \$28.9 million in 1987, \$23.0 million in 1986 and \$19.8 million in 1985.

Deferred Compensation Plan

In 1985, the Company established a deferred compensation plan which permitted certain of its key officers and employees to defer a portion of their incentive compensation in each of the succeeding four years. In 1986, the plan was amended to permit a single election to defer, in 1987, all remaining amounts deferrable under the plan. The deferred compensation is being accrued over the period of active employment on a present value basis. To fund these plans, the Company has purchased whole-life insurance on each participant's life. The Company's obligation under the plan, \$8.6 million and \$3.4 million at December 31, 1987 and 1986, respectively, is included in Other Long-term Liabilities in the Consolidated Balance Sheet.

12. COMMITMENTS*Lease Commitments*

The Company leases property and equipment under non-cancellable operating lease agreements which expire at various dates through 2018.

Future minimum annual rentals under non-cancellable leases are as follows:

	Operating Leases
1988	\$ 71.5
1989	67.6
1990	60.6
1991	55.4
1992	50.4
Thereafter	272.5
Total minimum lease payments	\$578.0

Rent expense for office space, which includes property taxes and certain other costs, amounted to

\$82.8 million, \$69.0 million and \$54.4 million for the three years ended December 31, 1987, 1986 and 1985, respectively.

Other Commitments

The Company has guaranteed certain borrowings and letters of credit, issued comfort letters in connection with keepwell agreements and has otherwise agreed to reimburse the payment of certain other asserted or unasserted liabilities of consolidated and unconsolidated subsidiaries. While these assurances and guarantees may expose the Company to financial consequences, it is management's opinion that any adverse effects will not be material to the Company's financial condition.

13. CONTINGENT LIABILITIES

Following the acquisition of Alexander Howden in January 1982, certain claims, relating primarily to the placement of reinsurance by Alexander Howden subsidiaries and questionable broking and underwriting practices of former Alexander Howden officials and others, have been or may be asserted. In particular, claims were made on behalf of members of Lloyd's syndicates formerly managed by PCW Underwriting Agencies Ltd. and WMD Underwriting Agencies Ltd. arising from services performed through Alexander Howden subsidiaries, prior to the Company's acquisition of Alexander Howden, with respect to the placement of reinsurance on behalf of these syndicates. A settlement offer by Lloyd's to the syndicates' members to settle all claims outstanding became unconditional on June 19, 1987. The Company's contribution to the Lloyd's offer has been charged against the recovery from the former auditors of Alexander Howden and, consequently, had no effect on operating results (see Note 14). The Company does not expect any further material adverse effect as a result of any potential claims which may be asserted by those syndicate members who have not accepted the Lloyd's offer.

Claims have been or may be asserted against the Company and certain of its subsidiaries alleging,

among other things, that certain Alexander Howden subsidiaries accepted, on behalf of certain insurance companies, insurance or reinsurance at premium levels not commensurate with the level of underwriting risks assumed and retroceded or reinsured those risks with financially unsound reinsurance companies. In two pending actions, plaintiffs allege compensatory and punitive damages based on claims arising from common law fraud, breach of contract and negligence, and treble damages totaling \$69 million based on claims under the Racketeer Influenced and Corrupt Organizations Act. Related actions contain a variety of allegations, including negligence, unfair and deceptive practices, bad faith and fraud and treble damages. Management of the Company believes that there are valid defenses to all claims that have been made with respect to these activities. The Company is vigorously defending the pending actions.

The Company and its subsidiaries are also subject to various claims and lawsuits from both private and governmental parties in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the placement of insurance and in rendering consulting services. In some of these cases, the remedies that may be sought or the damages claimed are substantial. Additionally, the Company and its subsidiaries are subject to the risk of losses resulting from the potential uncollectibility of insurance and reinsurance balances and claims advances made on behalf of clients.

Shand and its subsidiaries, prior to the sale as described in Note 4, advanced claim payments and placed insurance and reinsurance with and on behalf of The Mutual Fire, Marine and Inland Insurance Company ("Mutual Fire"). Mutual Fire was placed in rehabilitation in December 1986; a Plan of Rehabilitation was approved by the Commonwealth Court of Pennsylvania on June 26, 1987. The rehabilitator is required to determine the viability of that plan and to report to the court on its implementation not later than April 30, 1988. It is not possible to predict with certainty whether Mutual Fire will be successfully rehabilitated or whether it will eventually be placed in liquidation. In the event of a liquidation of Mutual Fire, a liquidator may challenge Shand and its subsidiaries concerning the amount of reinsurance owed to or paid by Mutual Fire and the reimburse-

ment by Mutual Fire of claims payments advanced on its behalf. Other claims have been or may be asserted by other affected parties, including insureds of Mutual Fire. The Company has agreed to indemnify the purchasers of Shand with respect to this contingency.

These contingent liabilities involve significant amounts, and while it is not possible to predict with certainty the outcome of such contingent liabilities, their coverage under the Company's professional liability insurance policies, or their financial impact on the Company, management presently believes that such impact will not be material to the Company's financial condition.

14. LITIGATION SETTLEMENT

In November 1986, the Company settled its lawsuit, which commenced in 1983, against certain former auditors of Alexander Howden. The terms of the settlement included the payment of \$24.0 million to the Company. Recognition of this recovery in the Consolidated Statements of Income has been deferred pending final resolution of specific loss contingencies arising out of the Alexander Howden acquisition which were known at the date of the settlement. The amount of the recovery is included in other long-term liabilities in the Company's Consolidated Balance Sheet.

As described in Note 13, the Company's after-tax contribution to the settlement offered to members of Lloyd's syndicates formerly managed by PCW Underwriting Agencies Ltd. has been charged against this recovery and, accordingly, the amount deferred has been reduced to approximately \$22.4 million.

15. BUSINESS SEGMENTS

Segment information is provided for the Company's two reportable segments, Insurance Services and Human Resource Management Consulting.

Insurance Services includes a broad range of

insurance brokerage services such as negotiating and placing casualty, property and marine insurance, wholesale and reinsurance brokerage, risk analysis and management and self-insurance services.

Human Resource Management Consulting includes a variety of services such as actuarial and administrative services for pension, compensation and benefit

plans, employee communications consulting, management consulting and association marketing.

The following tables present information about the Company's operations by business segment and geographical areas for each of the three years in the period ended December 31, 1987:

	Operating Revenue	Operating Income	Identifiable Assets	Depreciation and Amortization	Capital Expenditures
1987					
Insurance services	\$ 974.5	\$ 79.7	\$2,343.1	\$45.6	\$119.7
Human resource management consulting	121.0	5.7	129.9	3.4	11.5
Other business	23.2	1.3	34.0	0.8	2.2
Equity in unconsolidated operations	—	—	90.7	—	—
General corporate	—	(26.1)	12.0	0.7	1.1
Assets held for disposal	—	—	—	—	—
	<u>\$1,118.7</u>	<u>\$ 60.6</u>	<u>\$2,609.7</u>	<u>\$50.5</u>	<u>\$134.5</u>
1986					
Insurance services	\$ 943.3	\$126.2	\$2,169.4	\$36.3	\$ 48.8
Human resource management consulting	105.3	5.2	100.5	2.6	4.3
Other business	19.6	2.1	22.4	4.3	5.9
Equity in unconsolidated operations	—	—	100.3	—	—
General corporate	—	(23.7)	4.8	—	—
Assets held for disposal	—	—	31.2	—	—
	<u>\$1,068.2</u>	<u>\$109.8</u>	<u>\$2,428.6</u>	<u>\$43.2</u>	<u>\$ 59.0</u>
1985					
Insurance services	\$ 805.8	\$ 95.0	\$1,941.3	\$32.7	\$ 26.2
Human resource management consulting	88.2	3.4	69.5	2.0	2.1
Other business	19.6	(0.1)	20.8	4.0	17.3
Equity in unconsolidated operations	—	—	83.2	—	—
General corporate	—	(18.0)	8.2	—	—
Assets held for disposal	—	—	4.4	—	—
	<u>\$ 913.6</u>	<u>\$ 80.3</u>	<u>\$2,127.4</u>	<u>\$38.7</u>	<u>\$ 45.6</u>

	Operating Revenue	Income Before Taxes	Identifiable Assets
Geographical areas:			
1987			
United States	\$ 748.0	\$ 97.1	\$1,213.4
United Kingdom	160.8	26.8	729.4
Canada, principally RSC	117.6	18.9	190.6
Other countries	92.3	14.4	373.6
Equity in unconsolidated operations	—	17.8	90.7
General corporate	—	(38.1)	12.0
Assets held for disposal	—	—	—
	<u>\$1,118.7</u>	<u>\$136.9</u>	<u>\$2,609.7</u>
1986			
United States	\$ 728.4	\$110.9	\$1,316.4
United Kingdom	145.0	21.9	553.0
Canada, principally RSC	116.1	21.4	194.1
Other countries	78.7	6.6	228.8
Equity in unconsolidated operations	—	22.8	100.3
General corporate	—	(36.9)	4.8
Assets held for disposal	—	—	31.2
	<u>\$1,068.2</u>	<u>\$146.7</u>	<u>\$2,428.6</u>
1985			
United States	\$ 628.6	\$ 74.4	\$1,133.4
United Kingdom	119.7	25.5	489.3
Canada, principally RSC	98.5	2.8	186.6
Other countries	66.8	9.2	222.3
Equity in unconsolidated operations	—	12.8	83.2
General corporate	—	(27.8)	8.2
Assets held for disposal	—	—	4.4
	<u>\$ 913.6</u>	<u>\$ 96.9</u>	<u>\$2,127.4</u>

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly operating results for 1987 and 1986 are summarized below (in millions, except per share data).

Quarters	Operating Revenue	Operating Income	Income from Continuing Operations	Net Income (Loss)
1987				
1st	\$ 269.5	\$ 15.0	\$14.4	\$14.4
2nd	294.7	23.8	27.9	27.9
3rd	273.4	13.8	21.9	15.4
4th	281.1	8.0	10.7	10.7
Year	<u>\$1,118.7</u>	<u>\$ 60.6</u>	<u>\$74.9</u>	<u>\$68.4</u>
1986				
1st	\$ 249.8	\$ 28.9	\$22.1	\$22.1
2nd	269.2	37.3	22.7	19.6 (a)
3rd	267.4	31.1	15.7	(.9)
4th	281.8	12.5	6.1	2.4 (a)
Year	<u>\$1,068.2</u>	<u>\$109.8</u>	<u>\$66.6</u>	<u>\$43.2</u>

Per Share of Common Stock

Quarters	Income from Continuing Operations	Net Income (Loss)	Dividends	High(b)	Low(b)
1987					
1st	\$.34	\$.34	\$.25	\$32	\$24 ¹ / ₄
2nd	.66	.66	.25	30 ⁵ / ₈	22 ³ / ₈
3rd	.52	.36	.25	27 ³ / ₄	22 ³ / ₄
4th	.25	.25	.25	28 ¹ / ₄	15 ⁷ / ₈
Year	<u>\$1.77</u>	<u>\$1.62</u> (c)	<u>\$1.00</u>		
1986					
1st	\$.54	\$.54	\$.25	\$38	\$31 ³ / ₄
2nd	.55	.48 (a)	.25	40 ¹ / ₄	32 ¹ / ₂
3rd	.38	(.02)	.25	42 ³ / ₈	34 ⁷ / ₈
4th	.15	.06 (a)	.25	38	25 ¹ / ₈
Year	<u>\$1.62</u>	<u>\$1.05</u> (c)	<u>\$1.00</u>		

(a) An extraordinary credit of \$4.3 million was recorded in the second quarter of 1986 representing the utilization of net operating loss carryforwards. As a result of an additional tax deduction that was claimed for 1986 (see Note 6) only \$0.6 million was recognized in 1986, resulting in a \$3.7 million extraordinary charge in the fourth quarter of 1986.

(b) Sales prices on the New York Stock Exchange.

(c) Not equal to the sum of the quarters.

BOARDS OF DIRECTORS, CORPORATE OFFICERS, MAJOR SUBSIDIARIES AND OPERATING UNITS

ALEXANDER & ALEXANDER SERVICES INC. MAJOR OPERATING UNITS

Alexander & Alexander Inc.
Alexander & Alexander
International Inc.
Alexander Consulting Group Inc.
Alexander Howden Group Limited
Alexander Howden North
America, Inc.
Risk Management Services Group
Thomas A. Greene &
Company, Inc.
TIFCO Inc.

ALEXANDER & ALEXANDER SERVICES INC.

John A. Bogardus, Jr. * (1)
Chairman of the Board
Tinsley H. Irvin (1)
President
Chief Executive Officer
Chairman, Executive Committee
James D. Berry * (1) (2) (3) (4)
Chairman
Directors Executive Committee
First Republic Bank Corporation
Dr. Kenneth Black, Jr. * (1) (2) (3) (4)
Regents' Professor of Insurance
Georgia State University
Bobby J. Cline (1)
Senior Vice President
John B. Devine *
Senior Vice President
David C. French *
Senior Vice President
W. Douglas H. Gardiner * (1) (3) (4)
Former Vice Chairman
Royal Bank of Canada
Angus M. M. Grossart (1) (2) (4)
Managing Director
Noble Grossart Limited
Cedric G. E. Gyles *
Senior Vice President
Ronald A. Iles (1)
Senior Vice President

James A. McCormick *
Senior Vice President
Vincent R. McLean * (1) (2) (3) (4)
John C. Sienkiewicz (1)
Senior Vice President
Kenneth W. S. Soubry *
Former Chairman of the Board
Michael K. White (1)
Executive Vice President
William M. Wilson (1)
Executive Vice President
Peter M. Densen
Senior Vice President &
Chief of Staff
James B. Lockhart III
Vice President & Treasurer
Jayne D. Maas
Vice President &
Director of Taxes
Dr. Robert H. Moore
Senior Vice President
Corporate Relations
Mark E. Oleksik
Vice President & Controller
Chief Accounting Officer
Dan R. Osterhout
Senior Vice President
James Y. Paulding
Senior Vice President
Ronald J. Roessler
Vice President & General Counsel
Paul E. Rohner
Senior Vice President &
Chief Financial Officer
Harry L. Shuford
Vice President
Thomas Soper III
Vice President
Human Resources
Frank R. Wiczynski
Secretary

ALEXANDER & ALEXANDER SERVICES OPERATIONS BOARD

Tinsley H. Irvin
Chairman
President & Chief Executive Officer
Alexander & Alexander Services Inc.
Michael K. White
Deputy Chairman
Chairman & Chief Executive Officer
Alexander & Alexander Inc.
William M. Wilson
Deputy Chairman
Chairman & Chief Executive Officer
Alexander & Alexander International Inc.
Bobby J. Cline
Director, Client & Industry Relations
Alexander & Alexander Inc.
Angelo M. D'Alessandro
President & Chief Executive Officer
Alexander Consulting Group Inc.
Peter M. Densen
Senior Vice President
Chief of Staff
Ronald W. Forrest
Managing Director &
Chief Executive Officer
Alexander Stenhouse Limited
Thomas A. Greene
President
Thomas A. Greene & Company, Inc.
Luther T. Griffith
Chief Executive Officer
Risk Management Services Group
James S. Horrick
President & Chief Executive Officer
Reed Stenhouse Limited
Ronald A. Iles
Chief Executive Officer
Alexander Howden Reinsurance
Brokers Limited
Dennis L. Mahoney
Chief Executive Officer
Alexander Howden Limited
James A. McCormick
President & Chief Operating Officer
Alexander & Alexander Inc.
Lloyd E. Mills
Regional Chief Executive Officer
Australia & New Zealand
Alexander & Alexander International Inc.
Paul E. Rohner
Senior Vice President
Chief Financial Officer

ALEXANDER & ALEXANDER INC.

Michael K. White †
Chairman
Chief Executive Officer
James A. McCormick †
President
Chief Operating Officer
William D. Baker
(Alexander & Alexander International Inc.)
Donald R. Bell †
Regional Director—Eastern
Gerald M. Brown
Regional Director—Midwest
Donald Cleveland
President & Chief Operating Officer
Alexander & Alexander Consulting Group Inc.
Alexander & Alexander Benefits Services Inc.
Bobby J. Cline
Vice Chairman
Director, Client & Industry Relations
Paul V. Colony
Regional Director—Pacific
Angelo M. D'Alessandro
President & Chief Executive Officer
Alexander Consulting Group Inc.
Peter M. Densen
(Alexander & Alexander Services Inc.)
James H. Dunard
Regional Director—Southwest
Benjamin P. Gill, Jr.
General Counsel
Michael J. Gill
Controller
Luther T. Griffith
Chief Executive Officer
Risk Management Services Group
Thomas G. Hardy, Jr.
Executive Director
Executive Planning Services Division
Horace H. Holcomb III
Director, IMPACT
Tinsley H. Irvin
(Alexander & Alexander Services Inc.)
Buddy L. Kennedy
President
Strategies
Giles H. Madray, Jr. †
Director, Administrative Operations
John A. Malasky †
Director, Special Services
Allen J. McDowell
Regional Director—Southeast

* Director

(1) Member, Executive Committee

(2) Member, Audit Committee

(3) Member, Compensation Committee

(4) Member, Finance-Investment Committee

Robert J. Murphy †
Director, National Marketing
John C. Sienkiewicz
(Alexander & Alexander Services Inc.)
J. Ray Taylor
Deputy Regional Director—Southwest

Gregory M. Thomson
*Vice President
Human Resources*

Joseph R. Zatto
*Senior Vice President
Alexander & Alexander Consulting
Group Inc.*

Gary Sindler
Secretary

**ALEXANDER & ALEXANDER
INTERNATIONAL INC.**

William M. Wilson ^{(1) (2)}
*Chairman
Chief Executive Officer*

William D. Baker ⁽²⁾
*Senior Vice President
International Business Development*

Michael J. Barrett ^{(1) (2)}
*Managing Director
Chief Executive Officer
Europe*

John B. Devine
*Chairman
U.K. & Europe*

Ronald W. Forrest ^{(1) (2)}
*Managing Director
Chief Executive Officer
U.K.*

David C. French
*Chairman
Australia & New Zealand*

Cedric G. E. Gyles
*Chairman
Canada*

James S. Horrick ^{(1) (2)}
*President
Chief Executive Officer
Canada*

Lloyd E. Mills ^{(1) (2)}
*Regional Chief Executive Officer
Australia & New Zealand*

James Y. Paulding ⁽²⁾
*President
Chief Executive Officer
Japan*

William C. Thomas ^{(1) (2)}
*Chief Executive Officer
Asia & Middle East*

Robert E. O'Neil
*Vice President
Secretary/Treasurer*

**REED STENHOUSE
COMPANIES LIMITED**

W. Douglas H. Gardiner
Chairman

William M. Wilson
*President
Chief Executive Officer*

The Honourable John B. Aird
*Partner
Airt & Berlis*

W. David Angus
*Partner
Stikeman Elliott*

Cedric G. E. Gyles
*Chairman
Reed Stenhouse Limited*

James S. Horrick
*President
Chief Executive Officer
Reed Stenhouse Limited*

The Honourable E. Peter Loughheed
*Partner
Bennett Jones*

F. William Woodward
*Director
Reed Stenhouse Limited*

Daniel J. Sydor
*Vice President
Secretary/Treasurer*

**ALEXANDER CONSULTING
GROUP INC.**

Michael K. White
Chairman

Angelo M. D'Alessandro
*President
Chief Executive Officer*

Donald Cleveland
*President
Chief Operating Officer
Alexander & Alexander Consulting
Group Inc.
Alexander & Alexander Benefits
Services Inc.*

R. Allan Durward
*Chief Executive Officer
Alexander Consulting Group
Ltd.—U.K. & Europe*

Tinsley H. Irvin
(Alexander & Alexander Services Inc.)

Brian E. Kennedy
*President
Chief Executive Officer
Alexander Consulting Group
Ltd.—Canada*

William M. Wilson
*(Alexander & Alexander
International Inc.)*

Alice Russell
Secretary

**ALEXANDER HOWDEN
GROUP LIMITED**

Ronald A. Iles
Joint Chairman

Dennis L. Mahoney
Joint Chairman

Brian C. Ainsworth
*Director
Alexander Howden Limited*

Tinsley H. Irvin
(Alexander & Alexander Services Inc.)

Reginald W. Larkin
*Chairman
Alexander Howden Group
Management Services*

Francis N. Marjoribanks
*Chairman
Alexander Howden Group
Financial Services*

John L. Hill
Secretary

**ALEXANDER & ALEXANDER
INTERNATIONAL INC.
MAJOR SUBSIDIARY AND
OPERATING UNITS**

Alexander Stenhouse Europe
Limited—Continental Europe

Alexander Stenhouse
Limited—Asia/Middle East

Alexander Stenhouse
Limited—Australia & New Zealand

Alexander Stenhouse
Limited—U.K.

Reed Stenhouse
Limited—Canada

**ALEXANDER CONSULTING GROUP
INC. MAJOR SUBSIDIARY AND
OPERATING UNITS**

Alexander & Alexander Benefits
Services Inc.—U.S.

Alexander & Alexander Consulting
Group Inc.—U.S.

Alexander Consulting Group
Ltd.—Australia & New Zealand

Alexander Consulting Group
Ltd.—Canada

Alexander Consulting Group
Ltd.—U.K. & Europe

Benefacts Inc.—U.S.

**ALEXANDER HOWDEN GROUP
LIMITED MAJOR SUBSIDIARY AND
OPERATING UNITS**

Alexander Howden Limited

Alexander Howden Reinsurance
Brokers Limited

Alexander Howden & Beck Limited

Halford, Shead & Co. Limited

Holmes Johnson Lessiter Limited

**RISK MANAGEMENT SERVICES
GROUP MAJOR SUBSIDIARY AND
OPERATING UNITS**

Anistics Inc.—U.S.

Anistics Limited—Canada

Anistics Limited—U.K.

Anistics Pty. Limited—Australia

Alexander Insurance Managers
Limited

Alexander International Insurance
Services Limited

Alexander Trade Services

Hemisphere Marine & General
Assurance Company Limited

† Member, Management Committee

⁽¹⁾ Member, International Executive Committee

⁽²⁾ Member, International Operations Committee

INVESTOR INFORMATION

Approximate Number of Equity Security Holders

As of March 2, 1988, there were approximately 3,941 record holders of the Company's common stock, 1,150 beneficial holders of Class A common stock and 1,868 record holders of Class C common stock.

Notice of Form 10K

Shareholders wishing to receive a copy of the Company's 1987 Annual Report on Form 10K may secure one free of charge by writing to Alexander & Alexander Services Inc., Corporate Secretary, 300 East Joppa Road, Baltimore, Md. 21204.

Transfer Agents and Registrars

Morgan Shareholder Services Trust Company
30 West Broadway
New York, N.Y. 10007-2192

The Equitable Trust Company
100 South Charles Street
Baltimore, Md. 21201

The Royal Trust Company
48/50 Cannon Street
London EC4N 6LD
England

The Canada Trust Company
110 Yonge at Adelaide
Toronto, Ontario M5C 1T4
Canada

Auditors

Deloitte Haskins+Sells

Annual Meeting of Shareholders

Date: Thursday, May 19, 1988

Time: 9:30 a.m.

Place: The Equitable Center Auditorium
787 Seventh Avenue
between West 51st and
West 52nd Streets
New York, N.Y. 10019

ALEXANDER & ALEXANDER
OPERATES IN:

Argentina	Finland	Saudi Arabia
Australia	Fiji	Singapore
Austria	France	South Korea
Bahamas	Greece	Spain
Barbados	Guadeloupe	Swaziland
Belgium	Guatemala	Sweden
Bermuda	Hong Kong	Switzerland
Bolivia	India	Taiwan
Brazil	Indonesia	Thailand
Cameroon	Ireland	Trinidad & Tobago
Canada	Isle of Man	Turkey
Cayman Islands	Italy	United Arab Emirates
Channel Islands	Jamaica	United Kingdom
Chile	Japan	United States
China	Kenya	Venezuela
Colombia	Luxembourg	West Germany
Costa Rica	Malaysia	Zaire
Curacao	Mexico	
Denmark	Netherlands	
Dominican Republic	New Zealand	
Ecuador	Nigeria	
	Norway	
	Panama	
	Papua New Guinea	
	Peru	
	Philippines	
	Portugal	
	Puerto Rico	



CORPORATE HEADQUARTERS
ALEXANDER & ALEXANDER SERVICES INC.
1211 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10036

